

State of Idaho
Dirk Kempthorne, Governor

General Fund Revenue Book

**FY 2006 Executive Budget
January 2005**

- Economic Forecast
- Revenue Projections
- Tax Structure

Prepared by the Division of Financial Management

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INTRODUCTION

The basis for most of the revenue projections made in this book is the *Idaho Economic Forecast* published by the Division of Financial Management (DFM), which in turn is based on the Idaho Economic Model (IEM)¹. Each major revenue category (personal income tax, sales tax, and corporate income tax) is specified as a function of relevant explanatory variables.

Although the revenue model is specified in precise quantitative terms, two levels of uncertainty exist. The first of these uncertainties is associated with the statistical process itself and hence may be reduced to probabilities and confidence intervals. The other is related to the uncertainties associated with unknown future events. Weather effects on agriculture are a classic example. A forecast of agricultural production must either assume average weather or project some specific future weather condition. The forecast is contingent upon that assumed weather pattern actually occurring. Some other weather pattern will result in a different outcome for both farmers and the myriad of entities dependent upon the fortunes of farmers.

The contingent nature of an agricultural model demonstrates the uncertainty associated with any model containing exogenous variables. Both sources of forecast error are present in any model that is dependent on explanatory variables. Since most of Idaho's revenue sectors depend heavily on Idaho income levels, the revenue forecast is particularly sensitive to those factors that influence Idaho's income.

The major foundation of the IEM is economic base theory. Idaho's economy can be divided into "basic" and "domestic" activities (also known as "export" and "residential"). The basic activities, such as agriculture, forestry, mining, manufacturing, tourism, and exported services are characterized by a major dependence on external forces; while domestic activities like construction, trade, local services, and public utilities are characterized by a dependence on influences from within the State. The idea is that basic activities form the foundation of Idaho's level of economic activity, while domestic activities essentially follow from basic activities. While not a perfect theory, economic base theory does serve as a useful means of identifying the driving forces behind Idaho's overall level of economic activity.

¹ The IEM is in turn based on the Global Insight Quarterly Model of the U.S. Economy. Descriptions of both are available in the current *Idaho Economic Forecast*, Division of Financial Management.

Idaho Economic Forecast

The following tables and text are taken from the
January 2005 *Idaho Economic Forecast*,
a publication produced by the
Division of Financial Management.

EXECUTIVE SUMMARY

Idaho nonfarm employment returned to a solid footing in 2004, after experiencing two years of disappointing growth in the previous two years. Over this two-year period, the state added about 4,500 new jobs. To put this in perspective, in 2004 alone Idaho gained over 14,600 jobs. After 2004, Idaho nonfarm employment should grow slightly slower, averaging about 1.7% per year through 2008. This is very close to what had been anticipated in the October 2004 *Idaho Economic Forecast*. In fact, although some of the details for the sectors differ, in 2007 the difference between the current and previous forecasts is just 52 jobs. While the overall Idaho job outlook is virtually unchanged, the prospects for the state's goods-producing sector have improved. There are about 1,000 more goods-producing jobs in 2007 than in the previous forecast. It is interesting to note that while the forecast for Idaho goods-producing employment has been revised up, its national counterpart has reduced. The differences between Idaho personal income forecasts are more noticeable than the employment projections. For example, the Idaho nominal personal income forecast for 2004 is one-half billion dollars (1.3%) lower than in October 2004 and it is \$622 million (1.4%) lower in 2007. Most of this decrease can be traced to the revised Idaho personal income estimates that lowered the starting point for this forecast by 1.2%. While the starting level of the Idaho personal income forecast has changed since October 2004, its rate of growth remains comparable. Specifically, Idaho nominal personal income is expected to grow 5.4% annually from 2003 to 2007, compared with 5.5% per year in the previous forecast. Even after adjusting for inflation, the forecasts for personal income are similar.

The U.S. economy is forecast to make steady progress over the next few years, but fall short of its potential. This can be seen in the output and jobs forecasts. Specifically, real output is expected to average about 3.0% annual growth after 2004. While this is a welcome change from the lackluster growth of 2001 and 2002, it is below the estimated potential GDP growth of 3.5%. The sub-potential growth is also evident in the employment numbers. This year's projected 1.7% increase is the high-water mark for the forecast period. After this year, national nonfarm employment should expand at about 1.0% annually. While any growth is a relief from the job drought of 2001-2003, the forecasted pace of job creation will not be fast enough to absorb all the expanding labor pool. As a result, after falling initially, the U.S. civilian unemployment rate is expected to increase in the latter part of the forecast and fail to return to full employment. It should be obvious oil prices have been a major determinant of the economy's performance over the past year. These huge oil price increases may have subdued the U.S. economic expansion, but they have not stopped it. This is because the U.S. economy is less dependent on oil than in the 1970s and 1980s. One issue that moved to the front burner was the nation's swelling current account deficit. Although it had been ignored for years, this imbalance was noticed when it began to put downward pressure on the U.S. dollar. The major good point is it makes American goods and services more affordable in the global market, and this should help shrink, but not erase, the lopsided global trade picture. The relatively slow job growth should also contain inflation because forthcoming compensation gains should be modest. Indeed, the U.S. civilian unemployment rate is expected to remain above the level at which inflationary fires will be rekindled. Thus, should the economy grow faster than expected, it should be able to do so without igniting rapid inflation.

**IDAHO ECONOMIC FORECAST
EXECUTIVE SUMMARY
JANUARY 2005**

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
GDP (BILLIONS)											
Current \$	8,747	9,268	9,817	10,128	10,487	11,004	11,727	12,352	12,948	13,584	14,275
% Ch	5.3%	6.0%	5.9%	3.2%	3.5%	4.9%	6.6%	5.3%	4.8%	4.9%	5.1%
2000 Chain-Weighted	9,067	9,470	9,817	9,891	10,075	10,381	10,837	11,187	11,524	11,884	12,254
% Ch	4.2%	4.4%	3.7%	0.8%	1.9%	3.0%	4.4%	3.2%	3.0%	3.1%	3.1%
PERSONAL INCOME - CURR \$											
Idaho (Millions)	27,287	29,068	31,290	33,091	33,963	34,955	37,019	38,919	41,042	43,139	45,459
% Ch	7.6%	6.5%	7.6%	5.8%	2.6%	2.9%	5.9%	5.1%	5.5%	5.1%	5.4%
Idaho Nonfarm (Millions)	26,371	28,075	30,474	32,095	33,011	34,030	36,116	37,858	39,922	42,020	44,344
% Ch	7.1%	6.5%	8.5%	5.3%	2.9%	3.1%	6.1%	4.8%	5.5%	5.3%	5.5%
U.S. (Billions)	7,423	7,802	8,430	8,724	8,879	9,162	9,638	10,109	10,657	11,209	11,826
% Ch	7.3%	5.1%	8.0%	3.5%	1.8%	3.2%	5.2%	4.9%	5.4%	5.2%	5.5%
PERSONAL INCOME - 2000 \$											
Idaho (Millions)	28,429	29,788	31,289	32,411	32,800	33,128	34,342	35,430	36,788	37,947	39,165
% Ch	6.6%	4.8%	5.0%	3.6%	1.2%	1.0%	3.7%	3.2%	3.8%	3.2%	3.2%
Idaho Nonfarm (Millions)	27,475	28,770	30,473	31,436	31,880	32,251	33,505	34,465	35,784	36,963	38,205
% Ch	6.1%	4.7%	5.9%	3.2%	1.4%	1.2%	3.9%	2.9%	3.8%	3.3%	3.4%
U.S. (Billions)	7,734	7,996	8,429	8,545	8,575	8,683	8,941	9,203	9,552	9,860	10,189
% Ch	6.4%	3.4%	5.4%	1.4%	0.3%	1.3%	3.0%	2.9%	3.8%	3.2%	3.3%
HOUSING STARTS											
Idaho	10,110	10,338	11,518	12,236	13,154	16,322	18,077	17,634	16,252	15,296	13,968
% Ch	14.1%	2.3%	11.4%	6.2%	7.5%	24.1%	10.8%	-2.5%	-7.8%	-5.9%	-8.7%
U.S. (Millions)	1,621	1,647	1,573	1,601	1,710	1,853	1,941	1,832	1,692	1,657	1,629
% Ch	9.9%	1.6%	-4.5%	1.8%	6.8%	8.3%	4.8%	-5.6%	-7.6%	-2.1%	-1.7%
TOTAL NONFARM EMPLOYMENT											
Idaho	520,477	538,102	558,580	568,017	568,006	572,502	587,124	596,683	607,474	618,150	628,093
% Ch	2.6%	3.4%	3.8%	1.7%	0.0%	0.8%	2.6%	1.6%	1.8%	1.8%	1.6%
U.S. (Thousands)	125,924	128,992	131,791	131,837	130,343	129,937	131,295	133,501	135,058	136,200	137,296
% Ch	2.6%	2.4%	2.2%	0.0%	-1.1%	-0.3%	1.0%	1.7%	1.2%	0.8%	0.8%
SELECTED INTEREST RATES											
Federal Funds	5.4%	5.0%	6.2%	3.9%	1.7%	1.1%	1.3%	2.6%	3.4%	3.5%	3.9%
Bank Prime	8.4%	8.0%	9.2%	6.9%	4.7%	4.1%	4.3%	5.6%	6.4%	6.5%	6.9%
Existing Home Mortgage	7.1%	7.3%	8.0%	7.0%	6.5%	5.7%	5.8%	6.2%	6.6%	6.8%	7.3%
INFLATION											
GDP Price Deflator	1.1%	1.4%	2.2%	2.4%	1.7%	1.8%	2.1%	2.0%	1.8%	1.7%	1.9%
Personal Cons Deflator	0.9%	1.7%	2.5%	2.1%	1.4%	1.9%	2.2%	1.9%	1.6%	1.9%	2.1%
Consumer Price Index	1.5%	2.2%	3.4%	2.8%	1.6%	2.3%	2.7%	2.2%	1.3%	1.7%	1.9%

**National Variables Forecast by GLOBAL INSIGHT
Forecast Begins the THIRD Quarter of 2004**

IDAHO ECONOMIC FORECAST EXECUTIVE SUMMARY JANUARY 2005

	2004				2005				2006			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP (BILLIONS)												
Current \$	11,473	11,658	11,804	11,973	12,128	12,286	12,427	12,569	12,721	12,870	13,027	13,174
% Ch	7.4%	6.6%	5.1%	5.9%	5.3%	5.3%	4.6%	4.7%	4.9%	4.8%	5.0%	4.6%
2000 Chain-Weighted	10,698	10,785	10,883	10,981	11,060	11,149	11,230	11,308	11,391	11,480	11,571	11,654
% Ch	4.5%	3.3%	3.7%	3.6%	2.9%	3.3%	2.9%	2.8%	3.0%	3.1%	3.2%	2.9%
PERSONAL INCOME - CURR \$												
Idaho (Millions)	35,992	36,649	37,319	38,116	38,063	38,637	39,253	39,722	40,247	40,800	41,288	41,831
% Ch	4.6%	7.5%	7.5%	8.8%	-0.6%	6.2%	6.5%	4.9%	5.4%	5.6%	4.9%	5.4%
Idaho Nonfarm (Millions)	35,255	35,883	36,255	37,069	37,141	37,630	38,119	38,542	39,086	39,653	40,208	40,740
% Ch	8.5%	7.3%	4.2%	9.3%	0.8%	5.4%	5.3%	4.5%	5.8%	5.9%	5.7%	5.4%
U.S. (Billions)	9,445	9,583	9,655	9,869	9,916	10,049	10,177	10,296	10,448	10,590	10,730	10,858
% Ch	5.0%	6.0%	3.0%	9.2%	1.9%	5.5%	5.2%	4.8%	6.0%	5.6%	5.4%	4.9%
PERSONAL INCOME - 2000 \$												
Idaho (Millions)	33,681	34,034	34,561	35,092	34,857	35,208	35,674	35,983	36,318	36,667	36,925	37,243
% Ch	1.3%	4.3%	6.3%	6.3%	-2.7%	4.1%	5.4%	3.5%	3.8%	3.9%	2.9%	3.5%
Idaho Nonfarm (Millions)	32,992	33,323	33,576	34,128	34,012	34,291	34,643	34,914	35,270	35,635	35,959	36,272
% Ch	5.1%	4.1%	3.1%	6.7%	-1.4%	3.3%	4.2%	3.2%	4.1%	4.2%	3.7%	3.5%
U.S. (Billions)	8,839	8,900	8,941	9,086	9,080	9,157	9,249	9,327	9,428	9,517	9,596	9,667
% Ch	1.7%	2.8%	1.9%	6.6%	-0.3%	3.4%	4.1%	3.4%	4.4%	3.9%	3.4%	3.0%
HOUSING STARTS												
Idaho	16,544	17,595	19,330	18,838	18,156	17,816	17,491	17,071	16,716	16,347	16,107	15,838
% Ch	-27.5%	27.9%	45.7%	-9.8%	-13.7%	-7.3%	-7.1%	-9.3%	-8.1%	-8.5%	-5.7%	-6.5%
U.S. (Millions)	1,943	1,920	1,968	1,932	1,890	1,864	1,814	1,760	1,727	1,696	1,683	1,664
% Ch	-16.8%	-4.7%	10.4%	-7.0%	-8.5%	-5.4%	-10.2%	-11.5%	-7.3%	-7.1%	-3.0%	-4.5%
TOTAL NONFARM EMPLOYMENT												
Idaho	581,386	586,605	588,831	591,673	592,985	595,197	598,010	600,541	603,326	606,026	608,880	611,662
% Ch	4.2%	3.6%	1.5%	1.9%	0.9%	1.5%	1.9%	1.7%	1.9%	1.8%	1.9%	1.8%
U.S. (Thousands)	130,367	131,125	131,521	132,167	132,721	133,314	133,774	134,196	134,529	134,913	135,269	135,521
% Ch	1.1%	2.3%	1.2%	2.0%	1.7%	1.8%	1.4%	1.3%	1.0%	1.1%	1.1%	0.7%
SELECTED INTEREST RATES												
Federal Funds	1.0%	1.0%	1.4%	1.9%	2.2%	2.5%	2.8%	3.0%	3.2%	3.4%	3.5%	3.5%
Bank Prime	4.0%	4.0%	4.4%	4.9%	5.2%	5.5%	5.8%	6.0%	6.2%	6.4%	6.5%	6.5%
Existing Home Mortgage	5.6%	5.7%	5.8%	5.9%	6.1%	6.1%	6.1%	6.3%	6.4%	6.6%	6.6%	6.7%
INFLATION												
GDP Price Deflator	2.8%	3.2%	1.3%	2.0%	2.3%	2.0%	1.7%	1.8%	1.9%	1.6%	1.7%	1.6%
Personal Cons Deflator	3.3%	3.1%	1.1%	2.4%	2.2%	2.0%	1.1%	1.3%	1.6%	1.7%	2.0%	1.8%
Consumer Price Index	3.6%	4.7%	1.9%	3.1%	2.3%	2.0%	0.7%	1.0%	1.3%	1.5%	1.9%	1.6%

National Variables Forecast by GLOBAL INSIGHT
Forecast Begins the THIRD Quarter of 2004

NATIONAL FORECAST DESCRIPTION

The Forecast Period is the Third Quarter of 2004 through the Fourth Quarter of 2008

The U.S. economy is forecast to make steady progress over the next few years, but fall short of its potential. This can be seen in the output and jobs forecasts. Specifically, real output is expected to average about 3.0% annual growth after 2004. While this is a welcome change from the lackluster growth of 2001 and 2002, it is below the estimated potential GDP growth of 3.5%. The sub-potential growth is also evident in the employment numbers. This year's projected 1.7% increase is the high-water mark for the forecast period. After this year, national nonfarm employment should expand at about 1.0% annually. While any growth is a relief from the job drought of 2001-2003, the forecasted pace of job creation will not be fast enough to absorb all the expanding labor pool. As a result, after falling initially, the U.S. civilian unemployment rate is expected to increase in the latter part of the forecast and fail to return to full employment.

It should be obvious oil prices have been a major determinant of the economy's performance over the past year. Unfortunately, it has been harder to determine the level of oil prices. A look at Global Insight's oil price predictions illustrates this point. At the beginning of 2004, it was assumed the price of West Texas Intermediate crude would be \$28 per barrel in 2004 and \$26 per barrel in 2005. Several surges later, these price forecasts have been raised to \$42 for 2004 and \$46 for 2005—upward increases of \$14 and \$20 respectively.

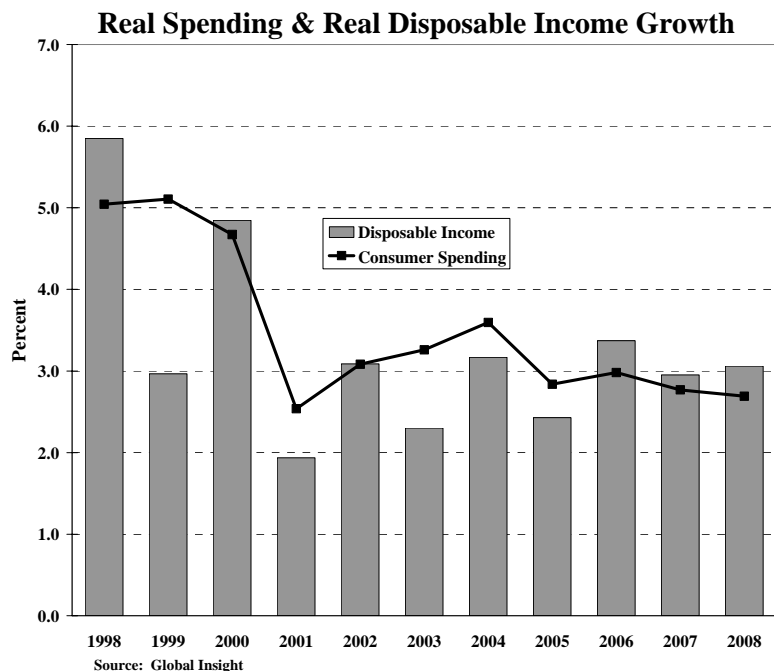
These huge oil prices increases may have subdued the U.S. economic expansion, but they have not stopped it. The forecast for real U.S. GDP growth for 2004 has been revised downwards from 4.7% in January 2004 to 4.4% in November 2004. Likewise, real GDP growth in 2005 has been scaled back from 4.0% in the beginning of the year to 3.2% near the end of the year. What is surprising is not how much the output forecasts have been reduced, but how little. Based on historical precedent, the casual observer would conclude oil price increases of the size discussed here would send the U.S. economy into a tailspin. But they have not because the U.S. economy is less dependent on oil than in the 1970s and 1980s.

One issue that moved to the front burner was the nation's swelling current account deficit. Although it had been ignored for years, this imbalance was noticed when it began to put downward pressure on the U.S. dollar. The falling dollar has its good and bad points. The major good point is it makes American goods and services more affordable in the global market, and this should help shrink the lopsided global trade picture. Unfortunately, the dollars decline alone will not be sufficient to fix the trade imbalance. First, for the last several years many foreign economies have benefited from the strong dollar, which allowed their companies to export themselves to prosperity by selling to the U.S., but doing little to stimulate demand in their own countries. In addition, since China pegs its currency to the U.S. dollar, it has not been affected by recent exchange rate changes. Foreign companies may also be willing to absorb losses from exchange rate fluctuations in order to maintain their markets shares. These factors also help explain why inflation remains benign in spite of the falling dollar, which is usually inflationary.

The relatively slow job growth should also contain inflation because forthcoming compensation gains should be modest. Indeed, the U.S. civilian unemployment rate is expected to remain above the level at which inflationary fires will be rekindled. Thus, should the economy grow faster than expected, it should be able to do so without igniting rapid inflation.

SELECTED NATIONAL ECONOMIC INDICATORS

Consumer Spending: The economy's consumer sector is expected to transition from a leading role to a supporting role during the forecast period. This will be a notable change because consumer spending kept the U.S. economy afloat while other sectors foundered. Real consumption spending grew faster than real GDP in every year from 1998 to 2003. A close examination shows consumer spending was an important positive influence that restrained the severity of the last recession. Real consumer spending growth slowed to 2.5% in 2001, but has accelerated in each year since. Several factors account for the strong post-recession spending. They include low interest rates, the strong housing market, and temporary federal tax cuts.



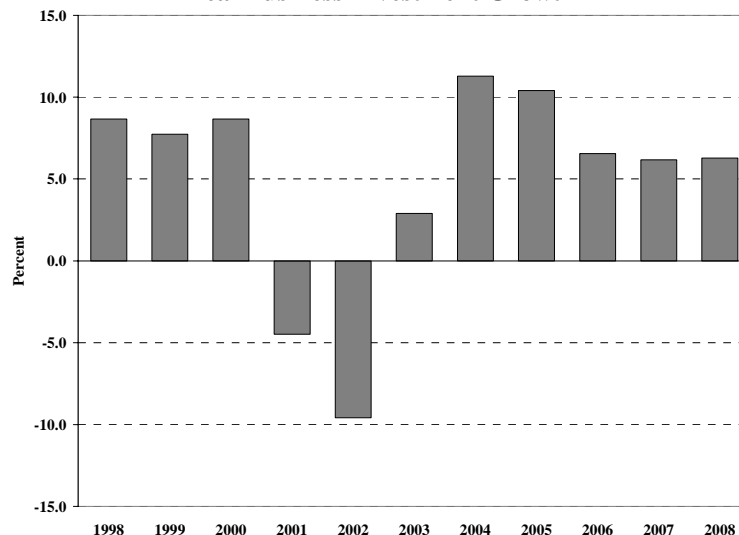
However, in the near term, consumer spending will need to shift to another fuel source because interest rates are expected to rise, the housing market is forecast to cool, and no major income tax cuts are anticipated. Absent these factors, consumer spending will become more dependent on the recovering job market. As a result, real spending is expected to grow more in line with real disposable income over the next few years than it has in the last few years. As the accompanying chart shows, since 1999 real consumer spending has generally grown faster than real personal income. One of the ways consumers financed this shopping spree was to curtail personal savings. The personal savings rate crossed a notable threshold in the third quarter of 2004 by falling to its lowest level since quarterly data were collected since 1947. From 1946 to 1992, the savings rate averaged 8.5% with no discernable trend. It plummeted from 1993 through 1999 before stabilizing near 2% during 2000 through 2002. After that it resumed its fall. Fluctuations in the savings rate can be explained by the wealth effect, interest rates, and credit availability. The decline in savings during the 1990s coincided with rising household net worth as stock markets boomed and home values appreciated. Households spent some of this new wealth, reducing the savings rate. The extension of credit also encouraged spending by low-income households. When the stock market collapsed in 2000-02, people were expected to save more of their incomes to rebuild depleted financial assets. Instead, declining interest rates sparked a wave of mortgage refinancing in which homeowners liquidated some of their home equity gains. In some cases, savings from lower mortgage payments provided another funding source for spending. The U.S. personal savings rate is currently at 0.4% of disposable income. The savings rate is expected to post a gradual recovery over the forecast period, but will not reach its pre-2001 level. The low savings rate is a concern because it could hamper long-term economic growth. Lower personal savings reduces the supply of funds available for capital formation. This pushes up long-term interest rates, which raises the cost of borrowing. The higher borrowing costs lower capital investment, and this limits potential long-term GDP growth. Real consumer spending is expected to increase 3.6% in 2004, 2.8% in 2005, 3.0% in 2006, 2.8% in 2007, and 2.7% in 2008. In comparison, real disposable income should rise 3.2% in 2004, 2.4% in 2005, 3.4% in 2006, 3.0% in 2007, and 3.1% in 2008.

Business Investment: Business investment has witnessed an interesting turnaround lately. Usually, spending on high-tech items grows faster than investment in low-tech items. But this has been reversed. Spending on high-tech items has grown slower than the investment on low-tech items.

Specifically, spending on equipment and software posted double-digit annualized growth for the fifth time in six quarters during the third quarter of 2004. And for the second quarter in a row, the low-tech categories outperformed the high-tech ones. Excluding equipment and software, nominal spending jumped 27% in the third quarter. Overall, nominal spending on equipment and software grew 13.2%. It was kept down by weak spending on equipment that rose a meager 1.6%. Several explanations have been offered for the abrupt slowdown in high-tech equipment spending. One theory is high-tech recovered much earlier than other equipment categories, so its go-go years have passed. The Wall Street Journal

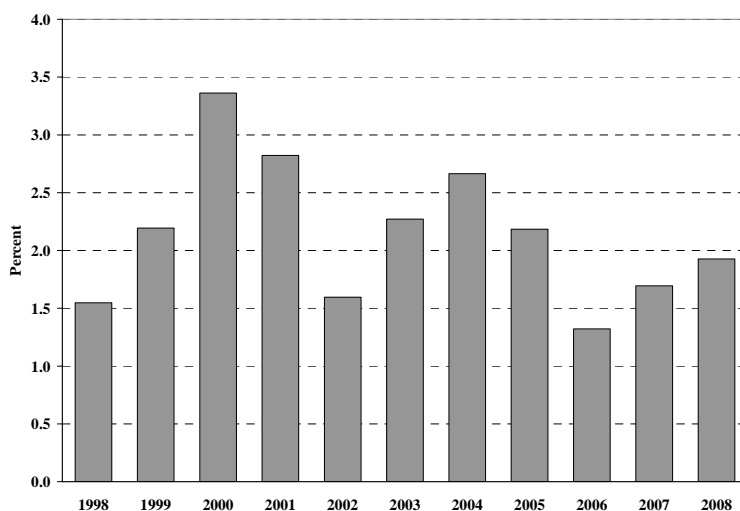
suggested the surge in high-tech equipment spending came from companies catching-up on delayed upgrades. Now that these companies are caught up, spending is slowing. This forecast assumes the recent slowdown was merely a hiccup, and that spending should rebound beginning with the fourth quarter of 2004. Another interesting change in the equipment category is computer prices are not falling as quickly as they once did. This raises two important questions. First, why have computer price declines slowed? Second, how will this change impact productivity growth? To answer the first question, the rate of technological change appeared to move at light speed during the 1990s. However, in recent years, perhaps because the profits from innovation are now understood to be smaller than once thought, the rate of innovation has slowed. As a result, price reductions have decelerated. The short answer to the second question is productivity will slow. Over the past 50 years productivity growth averaged 2.2% per year. Over the past four years, it has averaged nearly 4% annual growth. Over the forecast period, productivity will slow to about 2.5% per year. This slowdown is partially the result of the slower investment in equipment.

Real Business Investment Growth



Source: Global Insight

Consumer Price Inflation



Source: Global Insight

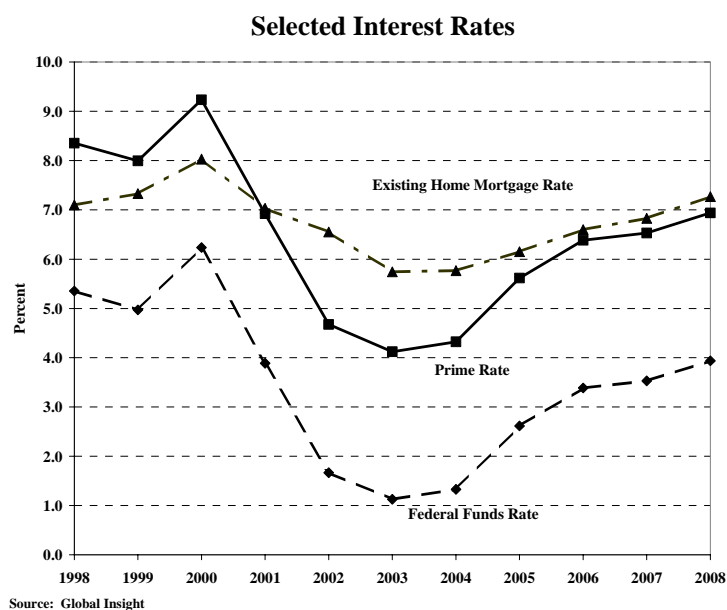
Inflation: Inflation is expected to remain benign over the forecast period. Despite being assailed by surging oil prices and the falling dollar, overall consumer price inflation remained under 3.0% in 2004. In the fall of 2004 oil prices topped \$50 per barrel, which pushed the energy commodities component of the consumer price index (CPI) to rise by over 18% in 2004. However, little of this spilled over into the overall CPI, which advanced 2.7% in 2004. While this is the highest inflation in four years, it does not come close to matching the inflation experienced during the 1970s. For example, in 1979 the energy component of CPI soared by 34% and the over CPI jumped 11%. Interestingly, the energy component of CPI grew slower in

1990 than in 2004, yet overall inflation was 2.7% in 2004 compared to 5.4% in 1990. Energy prices have less of an impact on overall inflation than in the past because the U.S. economy is more energy

efficient then it was in the past. Part of this is the result of technological changes and some of it reflects structural changes in the economy. The U.S. economy continues to move from a goods-producing economy to a services-producing economy. The latter simply uses less energy per unit of output than the former. Another potential source of inflation is the falling dollar. As the dollar value falls, it makes imported goods relatively more expensive for Americans to purchase imported goods. So far, the dollar's fall does not seem to be boosting inflation. There are a couple of explanations why inflation remains well behaved while the dollar falls. First, for most exporting nations, the U.S. market is too important to abandon. By raising prices, they risk losing their hard-won share of the U.S. market. Instead, they have resisted raising prices and absorbed losses caused by the falling dollar in order to remain competitive in the world's most lucrative market. Second, China is a major exporter of consumer goods into the U.S. market. Chinese goods are largely insulated from changes in the dollar's value because the Chinese currency is pegged to the dollar. In essence, the exchange rate between the countries' currencies remains constant, so there is no need for Chinese companies to change their prices. Over time, oil prices and exchange rates should be less of a threat to inflation. Oil prices began moving down in the winter of 2004 and the dollar is expected to gradually decline. Under these conditions, the primary determinant of inflation is employment costs. These costs are largely dictated by labor market conditions. The anticipation of slow job growth suggests employee compensation, and thus, employment costs will rise slowly. The forecast calls for wages and salaries to advance just over 3% per year and benefit costs to increase between 4% and 5%. The major wild card in the benefits forecast is health insurance costs. According to the forecast, this important component of total employee compensation should grow slower over the forecast period. However, history has shown this component is capable of escalating quickly. Consumer price inflation is forecast to rise 2.2% in 2005, 1.3% in 2006, 1.7% in 2007, and 1.9% in 2008.

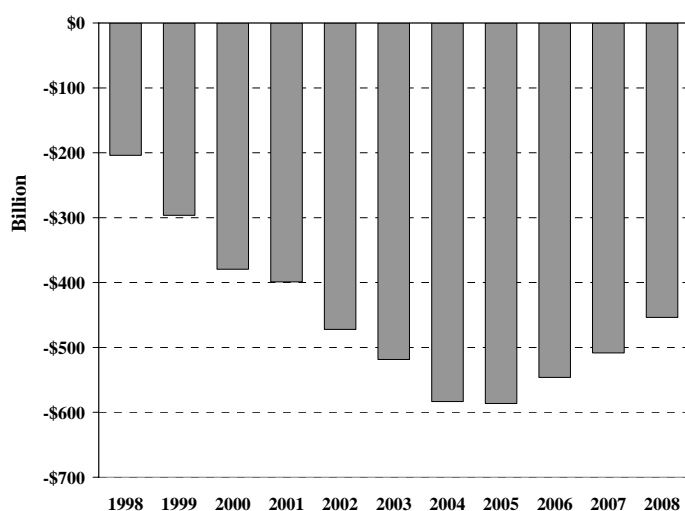
Financial: The Federal Reserve continues its plan to raise interest rates to a more normal level. The central bank's most recent step came on December 14, 2004, when it raised its federal funds rate by 25 basis points for the fifth time since May 2004. As a result, the bellwether federal funds rate was 2.25% at the end of 2004. The December 2004 move was the most difficult change of the string of increases to predict. This is because Federal Reserve statements made after recent increases have hinted the bank would delay further increases if it felt the economy was in danger of stalling. In addition, some bank officials have voiced concerns about the economy's fortitude and its vulnerability to high oil prices. These were also concerns before the Federal

Reserve raised its short-term funds rate in November 2004. But signs the economy remained on solid footing were evident back then, and this helped convince the central bank to continue raising interest rates. Two key factors influencing this move were the increase of over 300,000 nonfarm jobs in October 2004 and falling oil prices. The Federal Reserve usually increases interest rates to cool the economy in order to keep inflation under control. However, the Federal Reserve's recent increases are hard to tie to inflation because prices have been relatively well behaved. Instead, it seems to be moving to a more normal level of interest rates. A bit of history explains the Federal Reserve's recent action. At the end of 2000, the federal funds rate was 6.5%. However, fears of the economy's health caused the central bank to lower interest rates in order to keep the economy moving forward. The federal funds



rate fell to its nadir of 1.0% in June 2003 and remained at that level for about a year. This caused the real interest rate (federal funds rate less inflation) to become negative, which boosted the weak economy. The economy has grown since then and is better able to stand on its own, so the need for policy driven stimulation is unnecessary. In addition, with the federal funds rate at 1.0%, the U.S. central bank was at risk of losing one of its most important policy tools because it cannot lower rates below 0%. With the federal funds rate 2.25%, the central bank has expanded its options. At 2.25%, the federal funds rate is at a level where the real interest rate is near zero, so the Federal Reserve can stretch out its interest rate increases. The Federal Reserve will not remain neutral, but it is expected to raise the federal funds rate gradually to 4.25% by the end of 2008. Interestingly, the Federal Reserve has done little to prop up the dollar. Theoretically, the Federal Reserve could raise rates in order to increase the attractiveness of holding dollar-denominated assets, which would boost the demand for dollars, which would raise its value versus other currencies. But the gradual interest rate increases suggest the Federal Reserve's attention will remain focused on the economy and inflation.

Real U.S. Trade Deficit



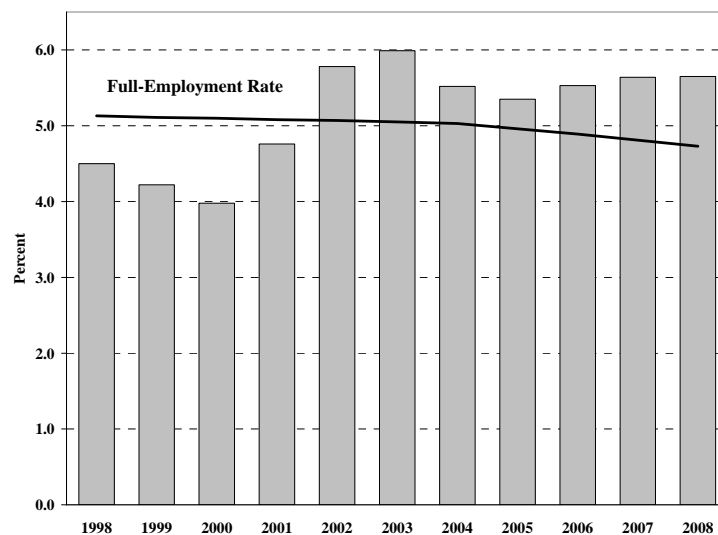
Source: Global Insight

International: Recently, doubts about the current strength of world economic growth have moved to center stage. In addition, record-breaking oil prices raised uncertainty about whether above-trend economic growth rates can be extended through 2005. While surging oil prices represent a temporary headwind to global economic growth, their negative impacts will be limited by the global economy's reduced oil intensity compared with the 1970s and 1980s. The reduced inflationary impact of oil prices provides central banks with more maneuvering room than in the previous oil crises. As a result, the world economy's recent setbacks are temporary and growth should remain strong enough for the

current cyclical recovery to continue. North America and Asia/Pacific, which have led the way with strong rebounds since the end of the Iraq crises, should maintain their leads through the first half of 2005, and the economies of either region should continue to benefit from higher global trade volumes and improving terms of trade. Another important factor is the U.S. dollar's recent slide. The drop in the greenback should make American products less expensive relative to their foreign competitors, which, in turn, should boost U.S. exports. After dropping by 7.8% in 2004 alone, the dollar is expected to decline gradually over the forecast period, so it is 8.3% lower in 2008 compared to 2004. Eventually, this should help shrink, but not erase, the nation's enormous trade imbalance. Other factors will work to keep the U.S. trade balance lopsided. First, some trade partners who are quick to criticize the U.S. trade deficit are the very ones who have benefited the most from it. In recent years, the U.S. has carried global economic growth. Foreign countries facing lackluster demand at home have attempted to export themselves to prosperity by selling to the U.S. Second, the worldwide excess of manufacturing capacity will cause foreign competitors to think twice about raising prices that would threaten their U.S. market share. Third, China, one of the nation's largest trading partners, pegs its currency to the dollar, so anticipated declines will have little impact on its imports into the U.S. or how much it purchase from the U.S. Fourth, exporting countries benefit from a strong dollar, and are likely to intervene to keep it from going into a freefall. It is estimated U.S. real net exports was \$583.3 billion in 2004, which is 12.5% higher than the previous year. It is expected to rise just slightly to \$586.2 billion in 2005 and shrink in the remaining years of the forecast.

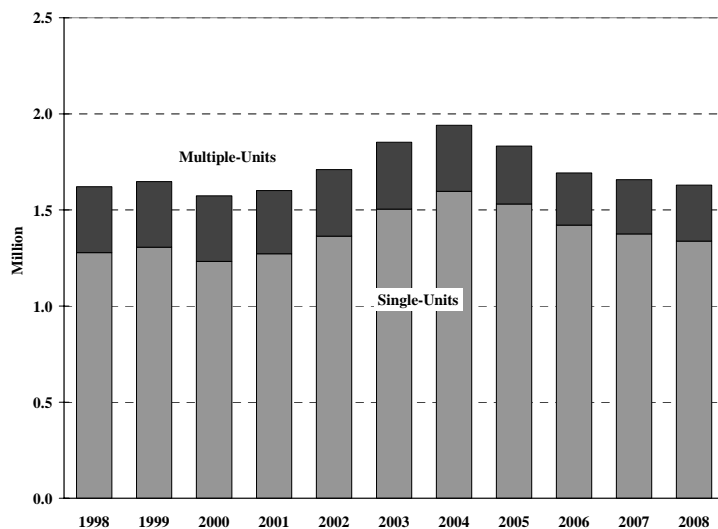
Employment: National nonfarm employment grew in 2004 after a three-year hiatus. From 2000 to 2003, the U.S. economy shed over 1.8 million jobs. Unfortunately, the nation's manufacturing sectoring took an even bigger hit by losing nearly 2.8 million jobs over this same period. It has been estimated another 150,000 manufacturing jobs were lost in 2004. Despite the manufacturing sector's losses, overall nonfarm employment managed to expand a modest 1.0% in 2004. This long-awaited gain results from an unusual monthly job-growth pattern. Instead of growing steadily, employment growth in 2004 has displayed a pattern that consists of a string of disappointing months followed by months of outstanding job growth. For example, after strong month-to-month gains in March, April, and May, there was unspectacular nonfarm employment growth through most of the summer. This was followed by a strong October, when over 300,00 jobs were added. November brought an additional 112,000 jobs. During the first 11 months of 2004 an average of over 185,000 jobs per month have been added to the U.S. economy. The next year promises to be even better, with a projected 1.7% increase over 2004. It should also be pointed out U.S. nonfarm employment should top its 2001 peak in 2005. The return to job expansion is especially well timed. Up until recently, overall economic growth has been policy driven. An accommodative monetary policy and a generous fiscal policy kept the economy moving ahead. Job growth has to return as an important growth engine just as policies are becoming less generous. Nonfarm employment is expected to grow slower after 2005, averaging about 1% per year. The non-manufacturing component will enjoy most of the growth over this period. Manufacturing employment is anticipated to post meager gains in 2005 and 2006, but these increases will not come close to replacing the jobs lost by this beleaguered sector since 2000. From 2005 to 2008, about 105,000 nonfarm jobs should be added per month. At that pace, the job market will not grow fast enough to keep up with the expanding labor force. This can be seen in the unemployment data. After peaking at 6% in 2003, the U.S. civilian unemployment rate improved to 5.5% in 2004 and should move down to 5.4% in 2005. However, it is expected to gradually rise thereafter, reaching 5.7% in 2008.

U.S. Civilian Unemployment Rate



Source: Global Insight

U.S. Housing Starts



Source: Global Insight

Housing: The nation's housing industry is expected to gradually slow after enjoying a banner year in 2004. The housing sector has been a pleasant surprise during the recovery. Economists have more than once issued warnings of the housing sector's imminent retreat only to see it set new records. This can be seen in both the housing starts and housing sales data. After falling to 1.57 million units in 2000, the number of housing starts has increased in every year thereafter. In 2003, housing starts topped 1.8 million units for the first time since 1986. This milestone will be passed in 2004, when housing starts should grow

comfortably above 1.9 million units—its strongest showing since 1978. The performance of housing sales has been even more impressive. Fueled by low mortgage interest rates, sales of existing homes rose from five million units in 1998 to over six million units in 2003. Given the major role low interest rates have played in bolstering the housing sector, there has been growing concern that recent interest rate hikes may cause a step decline in this sector. However, this forecast assumes a more gradual decline for this sector, partially because mortgage interest rates are expected to rise only slowly. Specifically, the rate for existing-home mortgages is expected to rise from 5.7% in 2003 to 7.3% in 2008. While the latter rate is high compared to recent years, it is much lower than the 8% rate that prevailed in 2000. There should be a minor fallout from rising rates. National housing starts are forecast to decline from 1.9 million units in 2004 to 1.6 million units in 2008. The number of existing homes sold will fall by about one million during the forecast period, from 6.6 million units to 5.6 million units.

IDAHO FORECAST DESCRIPTION

The Forecast Period is the Third Quarter of 2004 through the Fourth Quarter of 2008

The current Idaho economic outlook is very similar to the forecast published in October 2004. Indeed, a comparison between the two forecasts is more accurately described as minor tune-up than a major overhaul. Most of the changes are minor because changes to the national forecast upon which they are based have been relatively small. Other changes reflect revisions to historical data. In most cases these revisions were relatively minor, except for the personal income data. In general, the revisions lowered the starting point for the Idaho personal income forecast. This is discussed in detail below.

Idaho nonfarm employment returned to a solid footing in 2004, after experiencing two years of disappointing growth in the previous two years. Over this two-year period, the state added about 4,500 new jobs. To put this in perspective, in 2004 alone Idaho gained over 14,600 jobs. The state's 2004 job recovery was not unexpected. In the October 2004 *Idaho Economic Forecast*, Idaho nonfarm payrolls were expected to expand about 13,500 in 2004. The difference between these two employment forecasts for 2004 is a miniscule 0.2%.

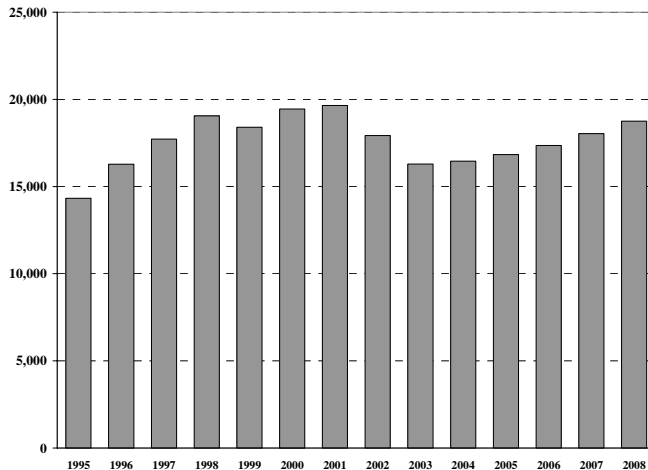
After 2004, Idaho nonfarm employment should grow slightly slower, averaging about 1.7% per year through 2008. Again, this is very close to what had been anticipated in the October 2004 *Idaho Economic Forecast*. In fact, although some of the details for the sectors differ, in 2007 the difference between the current and previous forecasts is just 52 jobs. (A comparison for 2008 was not possible because the previous forecast terminated in 2007.)

While the overall Idaho job outlook is virtually unchanged, the prospects for the state's goods-producing sector have improved. Employment is about 1.0% higher in 2005, 2006, and 2007, so there are about 1,000 more goods-producing jobs in 2007 than in the previous forecast. One of the reasons for this improvement is the forecast for Idaho manufacturing has been revised upwards. This partly reflects the revised historical data that show previous employment forecasts for this sector were too low. Specifically, it appears there were nearly 400 more goods-producing jobs in the second quarter of last year than had been forecast in October 2004. It is interesting to note that while the forecast for Idaho goods-producing employment has been revised up, its national counterpart has reduced. In 2007, the gain in Idaho goods-producing jobs is offset by a decline in forecasted nongoods-producing jobs. However, given the huge size of the nongoods-producing sector, the decline has a relatively minor percentage.

The differences between Idaho personal income forecasts are more noticeable than the employment projections. For example, the Idaho nominal personal income forecast for 2004 is one-half billion dollars (1.3%) lower than in October 2004 and it is \$622 million (1.4%) lower in 2007. Most of this decrease can be traced to the revised Idaho personal income estimates that lowered the starting point for this forecast by 1.2%. While the starting level of the Idaho personal income forecast has changed since October 2004, its rate of growth remains comparable. Specifically, Idaho nominal personal income is expected to grow 5.4% annually from 2003 to 2007. This measure was forecast to advance 5.5% per year in the previous forecast. Even after adjusting for inflation, the forecasts for personal income are similar. Idaho real personal income is expected to advance 3.5% annually in the current forecast, which is the same as in the October 2004 forecast.

SELECTED IDAHO ECONOMIC INDICATORS

Idaho Computer & Electronic Products Employment

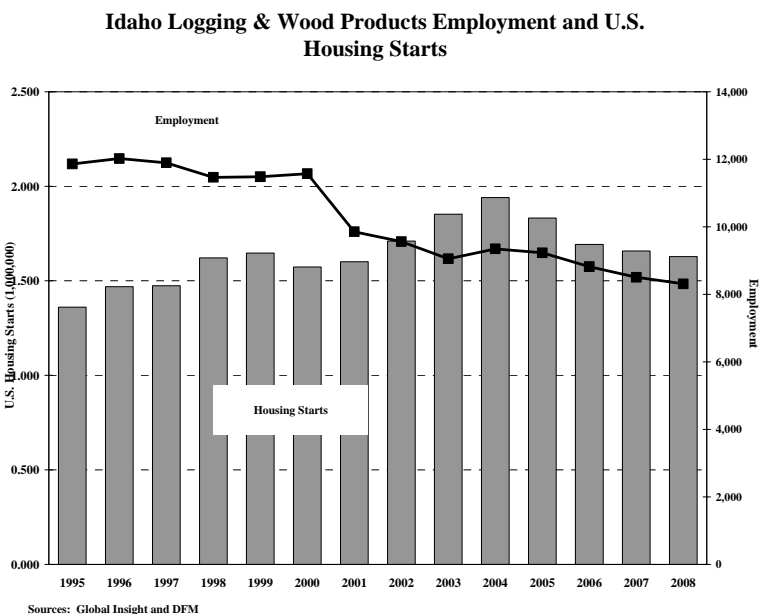


Computer and Electronics: Idaho's largest manufacturing sector, computers and electronics, continues to recover from one of them most severe downturns in the global electronics industry. Gem State manufacturers have navigated these industry doldrums before, but the most recent downturn has had the most negative impact on Idaho companies since the 1980s. The state's computer and electronics manufacturing sector shed jobs for the 11 quarters beginning with the second quarter of 2001. When the dust settled at the end of 2003, nearly 4,700 high-tech jobs had been lost. The companies losing employees is a who's who of the state's high-tech manufacturers. In 2001, Jabil Circuit, MicronPC.com, SCP Global Technologies, Micron MCMS, AMI, and Hewlett-Packard

reduced their staffs. As a result, this sector's employment growth slowed from 5.7% in 2000 to 1.0% in 2001. The Gem State's computer and electronics sector suffered another round of layoffs in 2002, which caused employment to decline 8.8% in that year. Much of the blame for this decline can be attributed to the fallout from the bursting high-tech bubble. Fueled by the demands of the Telecommunications Act of 1996, concerns over Y2K, and the popularity of the Internet, real investment in computer equipment advanced by at least 40% each year from 1995 through 1999. The output of U.S. computer and electronic equipment producers averaged over 31% annual growth during the second half of the 1990s. Unfortunately, real business investment retreated in 2001 and 2002. The computer and electronics sector suffered another blow in the winter of 2003 when Micron laid off over 1,000 employees in Idaho. This move was part of the company's plan to reduce costs in response to the glut of memory products that caused their prices to plummet. For example, Semico Research Corporation reported the price of 256 MB DRAM (Dynamic Random Access Memory) fell from \$7.40 in the first quarter of 2002 to around \$5.00 in the first quarter of 2003. The company's fortunes have improved since then, however. Micron posted net income of \$157 million for its fiscal year 2004, which is a noticeable improvement from the nearly \$1.3 billion loss for the previous fiscal year. In addition, Micron started its current fiscal year with another profitable quarter. Micron recently announced its payroll is back to its pre-layoff level. Idaho's computer and electronics sector's employment began growing again in the first quarter of 2004. This should be the first in a series of quarterly employment gains. This positive employment outlook reflects the impact of the anticipated business investment recovery. Real spending on information processing equipment by businesses is projected to grow 15.6% in 2004, 11.3% in 2005, 11.1% in 2006, 10.2% in 2007, and 10.2% in 2008. While the growth over the next few years is not up to par with previous years, it should be enough to keep this sector's employment growing through 2008. Specifically, Idaho's computer and electronics sector employment should rise 1.0% in 2004, 2.3% in 2005, 3.1% in 2006, 3.9% in 2007, and 4.0% in 2008.

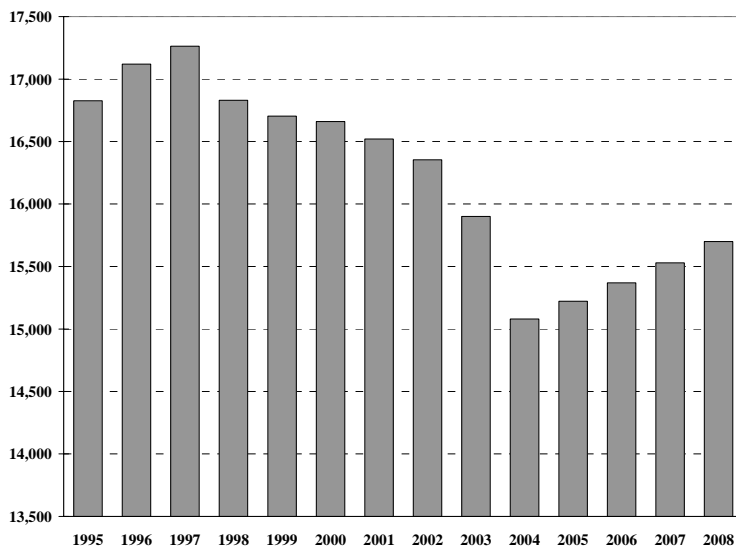
Logging and Wood Products: Idaho's logging and wood products sector posted a small employment gain in 2004—its first increase in four years. Unfortunately, this is not the first step in a return to prosperity, but rather it is a respite from the employment slide of recent years. After 2004, Idaho wood and lumber products employment is expected to decline once again. This sector has been shedding jobs in recent years. Employment in the lumber and wood products sector most recently peaked in 1996 and, except for two minor gains in 1999 and 2000, had been falling until 2004. During this period Idaho's lumber and wood products sector has suffered serious blows. The worst year was 2001,

when employment declined a whopping 14.9%. Employment fell by another 3.0% in 2002 and 5.3% in 2003. The closing of several mills over this period caused a portion of these declines. Approximately 125 jobs were lost when Boise Cascade shuttered its Cascade, Idaho mill in 2001. About 250 jobs were lost in 2002 when the company's Emmett, Idaho mill closed. Potlatch ceased operations at its Jaype Mill near Pierce, a move that cost about 215 jobs. Louisiana-Pacific closed its Bonners Ferry mill, putting about 140 people out of work. One of the reasons these mill closures are distressing is because their job losses are permanent. Unlike cyclical layoffs, where employees are recalled when business conditions improve, workers from closed mills have no place to return to work. It should also be pointed out that these tend to be high-paying jobs and the mill is often a community's major employer. As a result, the fallout from a mill closure is felt not just inside the mill's gate, but also throughout the community. One of the most frustrating part of these setbacks is they took place when the U.S. housing industry was booming. This sector has traditionally prospered when the U.S. housing industry is healthy, but that has not been the case recently. The number of U.S. housing starts has increased in every year since 2000, and nearly 1.9 million starts are expected in 2004—its strongest showing since 1978—yet Idaho lumber and wood products employment declined until 2004. Last year's employment increase suggests the Gem State's logging and wood products sector may have finally benefited from the strong demand for housing. Another factor contributing to last year's gain is the U.S. dollars decline against the Canadian dollar. This improved the competitiveness of U.S. lumber and wood products versus Canadian forest products. Unfortunately, U.S. housing starts are expected to recede from their 2004 peak, so lumber and wood products demand is expected to ebb. As a result, this sector's fortunes will be dominated by supply factors. This does not bode well for the Gem State's lumber and wood products sector because supply factors have not been favorable to this sector for some time. This sector depends on timber from public lands, but this supply has been dwindling. A look at the last decade's harvests shows how steep the decline has been. According to the U.S. Department of Agriculture, 739 million board feet (mbf) were harvested in Idaho in 1991, or about 41% of the state total. In comparison, federal lands in Idaho yielded just 102 mbf a decade later, which was less than 10% of the total harvest. The uncertainty of supply from federal forest is just one cloud on this sector's forecast horizon. Another concern is the current manufacturing over capacity. Strong markets in the 1990s led to heavy capital investment in this sector. As a result, it is estimated the industry can produce 20% to 25% more lumber than is being consumed in North America and Canada. In addition, unresolved fair trade issues between the U.S. and Canada are another source of uncertainty.



Idaho logging and wood products employment is expected to rise 3.2% in 2004, decline 1.2% in 2005, 4.5% in 2006, 3.5% in 2007, and 2.3% in 2008.

Idaho Food Processing Employment

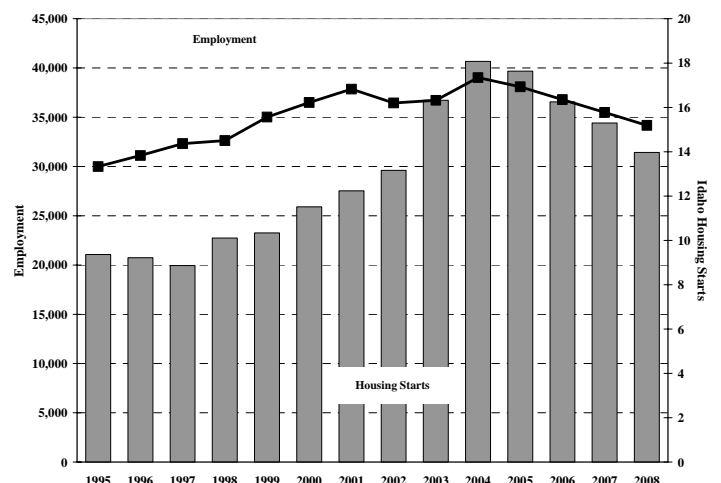


Food Processing: Employment in the Gem State's food processing sector is poised to expand beginning this year. This should mark the end to the long stretch of job declines that began in 1999. During this period, several iconic manufacturing facilities were shuttered. Nearly 360 jobs were lost when unfavorable business conditions caused J.R. Simplot Company to also close its Nampa meat packing plant in the fall of 2003. In addition, J.R. Simplot Company recently shuttered its Heyburn potato processing plant. The plant was built in 1960 and had run continuously since that time. However, the former processing site will be the home of new jobs. J.R. Simplot Company gifted the

entire property of its Heyburn plant to the City of Burley. One company has already announced plans to move into the industrial park. The opening of the new Gossner plant will require over 100 construction workers, and the plant will create over 40 jobs when it becomes operational in October 2005. This new plant is symbolic of the growing presence of dairy industry in the state. According to the USDA, the size of Idaho's dairy herd has nearly doubled from 208,000 cows in 1994 to 404,000 cows in 2003. Over this same period, milk production more than doubled from 3.8 billion gallons to 8.8 billion gallons because of the increased output per cow. The amount of milk sold to plants also more than doubled during this time. Milk cash receipts grew from a little under one-half billion dollars in 1994 to over one billion dollars in 2003. Unfortunately, the Gem State's food processing sector's long-awaited employment gains have not offset the losses it has experienced in recent years. This sector's employment last peaked at 17,263 in 1997. After experiencing a 5.2% loss in 2004, Idaho food processing employment is projected to rise 0.9% in 2005, and about 1.0% annually in 2006, 2007, and 2008. In the last year, employment should be 15,699, which is about 1,600 below its 1997 peak.

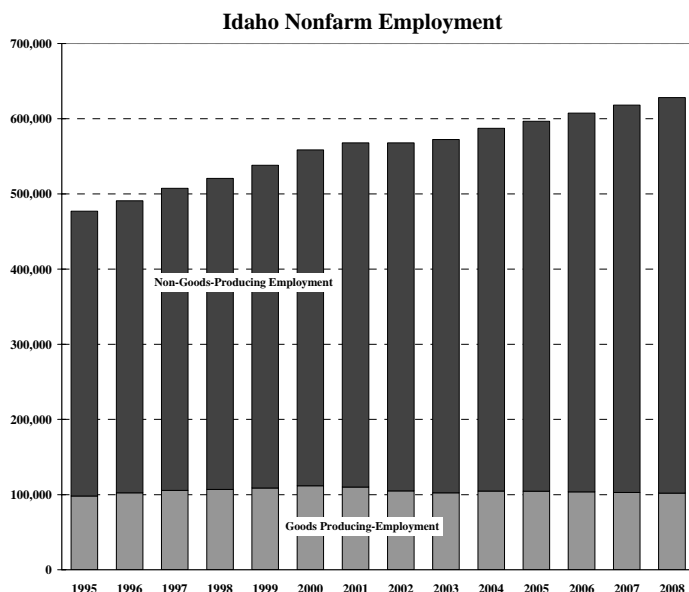
Construction: Idaho's construction sector broadcast mixed signals in the middle of last year, with Idaho housing starts performing above expectations and construction employment falling below projections. Idaho housing starts are covered first. Estimates based on data that has become available since the October 2004 *Forecast* was produced show there were 376 more housing starts in the second quarter of 2004 than had been forecast in the fall. These data also show the third quarter was much stronger than had been anticipated in the October 2004 *Forecast*. At that time, Idaho housing starts had peaked in the second quarter of 2004, and would slowly

Idaho Construction Employment & Housing Starts



decline over the forecast period. The current data show housing starts rose steeply in the third quarter of 2004 instead of declining, with both single- and multiple-units showing significant increases. Idaho single-unit starts swelled to over 16,300 in the third quarter of 2004, which were nearly 1,800 more than had been previously forecast. There were nearly 750 more multiple-units starts than had been previously projected. Despite the higher housing starts, Idaho construction employment was actually lower than in the previous forecast. Specifically, it had been predicted in the October 2004 *Forecast* that construction employment would increase at a 11.7% annual rate to 39,980 in the second quarter of 2004. The current employment data show the number of construction jobs did increase, but to only 39,368. In the third quarter of 2004, there were 538 fewer jobs than had been previously forecasted. The new data have changed some of the details of the Idaho housing and construction projections, but their general outlooks remain unchanged from the previous forecast. For example, it was previously forecast that Idaho housing starts had peaked in the second quarter of 2004 and then would slowly decline thereafter. The current Idaho housing forecast calls for starts to peak in the third quarter of last year, then decline slowly over the forecast horizon. The reasons for the declines are the same for both forecasts. Eventually housing starts will succumb to rising mortgage rates and slower population growth. While these factors may cause the construction sector to sputter, this important engine of economic growth is not expected to collapse. Over the forecast period total Idaho housing starts are expected to fall from 18,077 in 2004 to 13,968 in 2008. Thus, while Idaho housing starts represent a decline from high levels of activity, they remain high by historical standards. Likewise, the Idaho construction employment declines from 39,031 in 2004 to 34,181 in 2008 represents a comfortable margin above its historical average.

Nongoods-Producing Industries: The importance of the state's nongoods-producing sector cannot be overstated. Like its national counterpart, the nongoods-producing sector accounts for the lion's share of nonfarm Idaho jobs and is expected to be the state's top job producer over the forecast period. Nongoods-producing employment accounts for eight of every ten nonfarm jobs in Idaho. The two largest nongoods employers are services and trade, representing three-fourths of nongoods-producing employment, or over 60% of Idaho total nonfarm employment. The services category is the larger of the two categories. The three largest services components are: professional and business services;



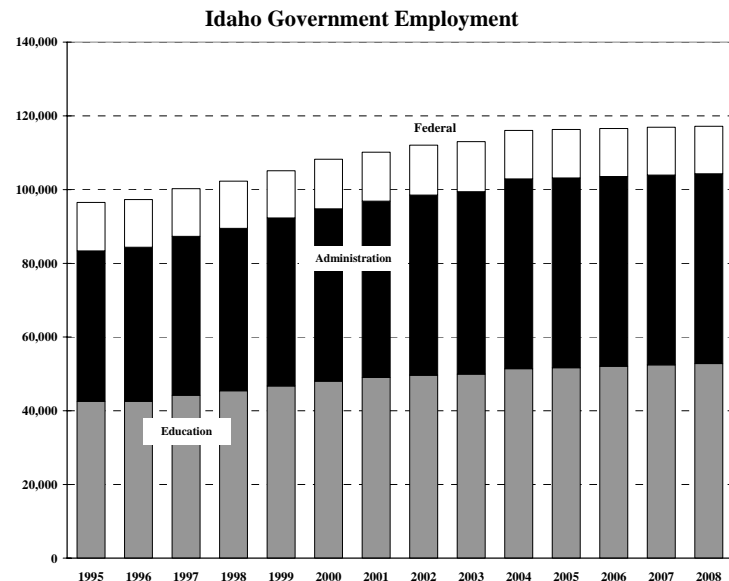
education and health services; and leisure and hospitality services. The next largest group consists of financial services; transportation, warehousing, and utilities; and other services. The smallest sector is information services. The trade sector consists of its retail and wholesale components. The retail component accounted for over 73,000 jobs in 2004 and is roughly three times the size of the wholesale component. The nongoods-producing sector usually leads overall job growth, and this decade is no exception. For example, the number of nongoods jobs expanded at a 1.9% annual pace from 2000 through 2004, while Idaho total nonfarm employment grew 1.3% per year.

The services component has risen faster in recent years than the trade component. While Idaho services employment has increased in every year since 2000 through 2004, trade employment expanded only in 2004. Professional and business services

should be one of strongest performers during the next few years. After experiencing a relatively anemic showing in 2003, professional and business services employment should expand an average of 3.9% per year through 2008. Education and health services employment should benefit from increased demand for health services caused by the aging population. Education and health services should grow 3.1% annually. Leisure and hospitality services employment is forecast to increase an average of 2.8% annually. Financial services employment growth is projected to average 2.4%, while transportation, warehousing, and utilities are expected to average 1.2% growth. Other services should advance 1.6% yearly. Idaho's high-quality labor force should continue to attract call centers, with the number of information services jobs growing 3.6% annually. Retail trade should average 2.1% growth over the forecast period, while wholesale trade advances at a 2.0% yearly pace.

Government: Idaho's state and local government sector is forecast to experience tepid employment growth over the next few years. Specifically, after a 3.5% jump in 2004, the number of jobs will advance by less than 0.5% annually in the remaining years of the forecast. This is a marked change from the 1990s when state and local employment combined averaged more than 3% growth per year. This job spurt resulted from the state's population boom in the 1990s. Idaho's population grew over 27%, or an average of about 2.5% per year from 1990 to 2000. In comparison, the U.S. economy grew about half as fast during that decade.

Idaho owes a great deal of this population growth to migration. The Gem State was relatively unscathed by the 1990-91 recession, which made it an attractive oasis in an economic desert. It was particularly attractive to Californians seeking to escape the ravages of one of the Golden State's most devastating downturns. Not only was California reeling from the 1990-91 recession, but it was also suffering the impacts of defense industry consolidations and military base closures. New arrivals poured into Idaho at such a pace that in the early 1990s net migration was higher than the number of births. The state's rapid population increase strained all levels of government. This put governments in catch-up mode for a good portion of the 1990s. As a result, Idaho state and local government employment growth averaged 3.0% from 1991 to 2000. As the U.S. economy boomed in the late 1990s, net migration into the Gem State tapered off. By the end of that decade net migration dipped below 13,000—which was less than its peak of 27,168 in 1993. It is expected to decline steadily over the forecast period, dropping well below 8,000 in 2008. Idaho's total population is forecast to grow about 1.5% per year. As Idaho's population growth slows, so will its state and local government employment. As was mentioned above, beginning with 2005 state and local employment should expand by less than 0.5% per year. Virtually all the growth will take place in the education-related component of government, with the noneducation component remaining essentially flat. It should be noted that the huge increase in Idaho non-education related employment in 2004 results from a data revision, so it should be used with caution. On an annual basis, Idaho noneducation related employment should advance 4.1% in 2004, but remain flat for 2005 to 2008. In comparison, the state's education employment is projected to increase just less than 1.0% per year. The federal government component is a relatively small part of Idaho employment. It accounted for 13,620 jobs in 2003, which is much less



than the nearly 100,000 state and local government jobs in Idaho. Unlike state and local employment, the number of federal jobs in Idaho is set by factors beyond its borders. Federal budget writers in Washington, D.C. mainly determine federal employment in Idaho. The return of federal deficits does not bode well for Idaho federal government employment. Federal government employment in Idaho is expected to shrink slowly over the next few years, going from 13,133 in 2004 to 12,906 in 2008.

ALTERNATIVE FORECASTS

Global Insight has assigned a 60% probability of occurrence to its November 2004 baseline forecast of the U.S. economy. The major features of this forecast include:

- Real GDP increases 4.4% in 2004, 3.2% in 2005, 3.0% in 2006, 3.1% in 2007 and 3.1% in 2008;
- U.S. nonfarm employment grows 1.0% in 2004, 1.7% in 2005, 1.2% in 2006, and 0.8% in both 2007 and 2008;
- the U.S. civilian unemployment rate rises slightly over time;
- consumer inflation is 2.7% in 2004, 2.2% in 2005, 1.3% in 2006, and 1.7% in 2007, and 1.9% in 2008; and
- the federal unified budget deficit peaks at \$413 billion in 2004 then gradually declines to \$288 billion in 2008.

OPTIMISTIC SCENARIO

The *Optimistic Scenario* has been assigned a 20% probability of occurrence. A few key assumptions distinguish the *Optimistic Scenario* from the baseline. In this *Scenario*, total factor productivity is higher than in the baseline. This helps the economy expand faster without rekindling inflation. Job growth is also stronger, while budget deficits are much smaller. This *Scenario* assumes stronger foreign growth boosts exports despite a stronger dollar. In addition to these key assumptions, oil prices are lower and construction is stronger.

These assumptions produce a rosier outlook than in the baseline. Although economic growth and job gains are stronger, inflation is actually lower than in the baseline thanks to the strong dollar and higher productivity gains. The lower inflation rate allows the Federal Reserve to be more accommodating than in the baseline. Real GDP rises 4.4% in 2004, 3.6% in 2005, 3.7% in 2006, 3.7% in 2007, and 3.5% in 2008. In the baseline, real GDP grows 4.4% in 2004, 3.2% in 2005, 3.0% in 2006, 3.1% in 2007, and 3.1% in 2008. In the *Optimistic Scenario*, nonfarm employment advances 1.1% in 2004, 1.9% in 2005, 1.5% in 2006, 1.1% in 2007, and 1.0% in 2008. The labor market's strength is also evident in the civilian unemployment rate, which declines from 5.5% to 5.2% over the forecast horizon. In contrast, the unemployment rate gradually increases over the forecast period in the baseline case. Nonfarm employment grows 1.0% in 2004, 1.7% in 2005, 1.2% in 2006, 0.8% in 2007, and 0.8% in 2008.

The higher U.S. productivity presents a mixed outlook for Idaho. Specifically, total nonfarm employment advances slightly faster than in the baseline this year and next, but grows slower than the baseline in 2007 and 2008. The cumulative result is Idaho nonfarm employment in the *Optimistic Scenario* is slightly lower. But this is not the case for all Idaho employment sectors. As the table shows, Idaho goods-producing employment actually remains stable in the *Optimistic Scenario*. It declines steadily in the *Baseline Scenario*. The nongoods-producing sector is not as well off. Its employment does grow over the forecast period, but it lags its baseline counterpart. The largest differences between the *Optimistic* and *Baseline* scenarios lie with Idaho personal income. Both nominal and real personal incomes grow slower over the forecast period than in the baseline. This occurs because the higher productivity dampens unit labor cost, which lowers Idaho wage growth. The lower wage growth has a cascading effect on several components of Idaho personal income.

IDAHO ECONOMIC FORECAST
BASELINE AND ALTERNATIVE FORECASTS
JANUARY 2005

	BASELINE				OPTIMISTIC				PESSIMISTIC			
	2005	2006	2007	2008	2005	2006	2007	2008	2005	2006	2007	2008
GDP (BILLIONS)												
Current \$	12,352	12,948	13,584	14,275	12,371	12,998	13,667	14,382	12,326	12,900	13,605	14,380
% Ch	5.3%	4.8%	4.9%	5.1%	5.5%	5.1%	5.1%	5.2%	5.1%	4.7%	5.5%	5.7%
2000 Chain-Weighted	11,187	11,524	11,884	12,254	11,231	11,646	12,074	12,499	11,146	11,378	11,679	11,975
% Ch	3.2%	3.0%	3.1%	3.1%	3.6%	3.7%	3.7%	3.5%	2.9%	2.1%	2.6%	2.5%
PERSONAL INCOME - CURR \$												
Idaho (Millions)	38,919	41,042	43,139	45,459	38,718	40,438	42,089	43,942	39,110	41,656	44,470	47,660
% Ch	5.1%	5.5%	5.1%	5.4%	4.6%	4.4%	4.1%	4.4%	5.6%	6.5%	6.8%	7.2%
U.S. (Billions)	10,109	10,657	11,209	11,826	10,111	10,665	11,222	11,832	10,112	10,670	11,317	12,045
% Ch	4.9%	5.4%	5.2%	5.5%	4.9%	5.5%	5.2%	5.4%	4.9%	5.5%	6.1%	6.4%
PERSONAL INCOME - 2000 \$												
Idaho (Millions)	35,430	36,788	37,947	39,165	35,409	36,566	37,467	38,417	35,442	36,716	38,120	39,644
% Ch	3.2%	3.8%	3.2%	3.2%	3.1%	3.3%	2.5%	2.5%	3.2%	3.6%	3.8%	4.0%
U.S. (Billions)	9,203	9,552	9,860	10,189	9,247	9,644	9,990	10,344	9,164	9,404	9,701	10,019
% Ch	2.9%	3.8%	3.2%	3.3%	3.4%	4.3%	3.6%	3.5%	2.5%	2.6%	3.2%	3.3%
TOTAL NONFARM EMPLOYMENT												
Idaho	596,683	607,474	618,150	628,093	597,075	608,017	618,303	627,838	596,706	605,189	614,577	625,003
% Ch	1.6%	1.8%	1.8%	1.6%	1.7%	1.8%	1.7%	1.5%	1.6%	1.4%	1.6%	1.7%
U.S. (Thousands)	133,501	135,058	136,200	137,296	133,866	135,863	137,408	138,721	133,339	134,279	135,094	136,118
% Ch	1.7%	1.2%	0.8%	0.8%	1.9%	1.5%	1.1%	1.0%	1.6%	0.7%	0.6%	0.8%
GOODS-PRODUCING SECTOR												
Idaho	104,605	103,636	102,899	102,175	104,997	104,969	104,926	104,912	104,729	102,949	101,432	100,080
% Ch	-0.1%	-0.9%	-0.7%	-0.7%	0.3%	0.0%	0.0%	0.0%	0.0%	-1.7%	-1.5%	-1.3%
U.S. (Thousands)	22,135	22,174	22,120	22,106	22,180	22,405	22,490	22,509	22,126	21,972	21,661	21,459
% Ch	1.2%	0.2%	-0.2%	-0.1%	1.4%	1.0%	0.4%	0.1%	1.1%	-0.7%	-1.4%	-0.9%
NONGOODS-PRODUCING SECTOR												
Idaho	492,079	503,837	515,252	525,918	492,078	503,047	513,377	522,926	491,977	502,240	513,145	524,923
% Ch	2.0%	2.4%	2.3%	2.1%	2.0%	2.2%	2.1%	1.9%	2.0%	2.1%	2.2%	2.3%
U.S. (Thousands)	111,366	112,884	114,080	115,190	111,686	113,458	114,918	116,212	111,213	112,307	113,433	114,659
% Ch	1.8%	1.4%	1.1%	1.0%	2.0%	1.6%	1.3%	1.1%	1.6%	1.0%	1.0%	1.1%
SELECTED INTEREST RATES												
Federal Funds	2.6%	3.4%	3.5%	3.9%	2.4%	3.1%	3.3%	3.4%	3.4%	5.3%	7.1%	7.4%
Bank Prime	5.6%	6.4%	6.5%	6.9%	5.4%	6.1%	6.3%	6.4%	6.4%	8.3%	10.1%	10.4%
Existing Home Mortgage	6.2%	6.6%	6.8%	7.3%	5.9%	6.2%	6.3%	6.6%	6.6%	8.0%	9.1%	9.4%
INFLATION												
GDP Price Deflator	2.0%	1.8%	1.7%	1.9%	1.7%	1.3%	1.4%	1.7%	2.1%	2.5%	2.7%	3.1%
Personal Cons Deflator	1.9%	1.6%	1.9%	2.1%	1.7%	1.3%	1.4%	1.7%	2.4%	2.8%	2.8%	3.1%
Consumer Price Index	2.2%	1.3%	1.7%	1.9%	1.7%	0.9%	1.4%	1.6%	2.6%	2.5%	2.5%	2.8%

Forecast Begins the **THIRD** Quarter of 2004

PESSIMISTIC SCENARIO

The *Pessimistic Scenario* has also been assigned 20% probability of occurrence. A significant feature of the *Pessimistic Scenario* is the re-emergence of inflation. The pickup of inflation reflects higher oil prices, a weaker dollar, two-and-one half years of accommodative monetary policy, and loose fiscal policy. In addition, higher prices are fueled by the ability of businesses to pass more of their costs to their customers. Two other factors cause prices to rise faster than in the baseline. There may actually be less spare manufacturing capacity than is currently believed, since rapid technological advances may have rendered obsolete much of the idle capacity the Federal Reserve has been including in its estimates of capacity. Global growth is hampered by the anti-growth regulatory and social policies in Europe. Consumer prices rise 2.7% in 2004, 2.6% in 2005, 2.5% in 2006, 2.5% in 2007, and 2.8% in 2008. The Federal Reserve responds to the higher inflation by quickening the pace of its tightening. By the end of 2005, the federal funds rate is at 4.5%. The federal funds rate eventually peaks at 7.5%. Between the higher interest rates and persistently high-energy prices, consumer confidence retreats and consumers rein in their discretionary spending.

The economy does not sink into a recession in this scenario, but merely fails to come as close to its potential. Real GDP is one-half percentage point lower in 2005 and 2006 than its baseline counterparts. As mentioned, inflation is higher, despite the weaker aggregate economy. Nonfarm employment grows slower than in the baseline. As a result, the unemployment rate climbs from about 5.5% in 2005 to over 6.0% in middle of 2006, where it remains until the second half of 2008.

In this *Scenario*, the outlook for Idaho employment is lower than in the *Baseline Scenario*, but the personal income forecast is stronger. Specifically, Idaho nonfarm employment advances 1.6% in 2005, 1.4% in 2006, 1.6% in 2007, and 1.7% in 2008. In this *Scenario*, Idaho goods-producing employment shrinks nearly twice as fast as in the baseline. As a result, there are about 2,100 fewer goods-producing jobs in this scenario compared to the baseline. This being the case, the nongoods-producing sector is the engine for job growth. However, it advances slower than it does in the baseline. Interestingly, Idaho nominal personal income increases faster than its baseline counterpart, due in large part to the higher predicted inflation.

Idaho General Fund Revenue

History and Projections

The following pages provide descriptions of the sources of General Fund revenue, historical rate and distribution formula information, historical revenue collection and distribution information, and a brief explanation of the basis of the forecast for each source of revenue that contributes to the General Fund.

Three primary revenue categories (individual income tax, corporate income tax, and sales tax) presently account for about 90% of General Fund revenue as of fiscal year 2004. These sources of revenue are forecast using a combination of econometric methods and judgment. The econometric method is multiple regression, using variables contained in the Idaho Economic Model (IEM). Exogenous forecast data are obtained from the January 2005 *Idaho Economic Forecast*. Both are products of the Division of Financial Management. The judgmental factors considered include the effects of rate changes, other law changes, judicial decisions, and knowledge not reflected in the econometric analysis.

Product taxes and miscellaneous revenue sources are forecast using collections history, trend analysis, law changes, receipts to date, and a broad array of contacts with individuals responsible for or otherwise involved with the collection of each revenue category. The largest miscellaneous revenue category, Insurance Premium Tax, is forecast in cooperation with the staff of the Department of Insurance, using simulation models to account for relevant variables and parameters that affect the cash flow into the General Fund.

GENERAL FUND REVENUE
(\$ MILLION)

SOURCE	ACTUAL								
	FY 1990	FY 1991	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
INDIVIDUAL INCOME TAX	\$398.28	\$432.22	\$459.44	\$508.02	\$559.17	\$596.46	\$650.85	\$704.82	\$776.19
% CHANGE	16.1%	8.5%	6.3%	10.6%	10.1%	6.7%	9.1%	8.3%	10.1%
CORPORATE INCOME TAX	\$72.49	\$60.02	\$57.97	\$70.00	\$87.63	\$131.64	\$151.98	\$122.36	\$117.29
% CHANGE	-0.6%	-17.2%	-3.4%	20.8%	25.2%	50.2%	15.5%	-19.5%	-4.1%
SALES TAX	\$319.29	\$335.74	\$364.32	\$402.82	\$452.68	\$481.57	\$463.00	\$476.73	\$496.81
% CHANGE	10.6%	5.2%	8.5%	10.6%	12.4%	6.4%	-3.9%	3.0%	4.2%
CIGARETTE TAX	\$5.88	\$6.86	\$7.07	\$7.00	\$7.61	\$7.25	\$7.48	\$7.49	\$7.48
TOBACCO PRODUCTS	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
BEER TAX	\$1.55	\$1.60	\$1.66	\$1.70	\$1.71	\$1.65	\$1.62	\$1.63	\$1.62
WINE TAX	\$0.77	\$0.75	\$0.75	\$0.75	\$0.81	\$1.14	\$1.52	\$1.66	\$1.80
LIQUOR SURCHARGE	<u>\$4.95</u>	<u>\$4.95</u>	<u>\$4.95</u>	<u>\$4.95</u>	<u>\$4.95</u>	<u>\$4.95</u>	<u>\$4.95</u>	<u>\$4.95</u>	<u>\$4.95</u>
PRODUCT TAXES	\$13.15	\$14.16	\$14.43	\$14.39	\$15.07	\$14.99	\$15.57	\$15.73	\$15.84
% CHANGE	-6.3%	7.7%	1.9%	-0.2%	4.7%	-0.6%	3.9%	1.0%	0.7%
KILOWATT-HOUR TAX	\$1.68	\$1.78	\$1.61	\$1.45	\$2.09	\$1.69	\$2.89	\$2.97	\$3.24
MINE LICENSE TAX	\$0.25	\$0.47	\$0.59	\$0.11	\$0.47	\$0.29	\$0.80	\$0.66	\$0.96
INTEREST EARNINGS	\$17.55	\$19.39	\$11.81	\$10.54	\$10.61	\$15.00	\$18.54	\$18.24	\$17.93
COURT FEES AND FINES	\$3.43	\$3.33	\$3.39	\$3.21	\$3.72	\$3.89	\$4.24	\$4.71	\$5.02
INSURANCE PREMIUM TAX	\$25.21	\$28.64	\$31.94	\$28.81	\$33.19	\$34.93	\$36.13	\$40.26	\$42.85
ALCOHOLIC BEVERAGE LICENSES	\$1.08	\$0.99	\$1.01	\$0.96	\$1.04	\$1.07	\$1.05	\$1.14	\$1.15
UCC FILINGS	\$1.07	\$1.17	\$1.40	\$0.91	\$0.78	\$0.85	\$0.94	\$0.03	\$0.03
UNCLAIMED PROPERTY	\$1.16	\$1.15	\$1.35	\$1.34	\$1.71	\$2.09	\$1.39	\$0.83	\$1.17
LANDS	\$0.16	\$0.19	\$0.21	\$0.23	\$0.22	\$0.24	\$0.24	\$0.24	\$0.27
ONE-TIME TRANSFERS	\$1.00	\$0.33	\$0.51	\$0.00	\$3.42	\$0.00	\$0.15	\$0.00	\$0.00
ESTATE TAX	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
OTHER DEPTS & TRANSFERS	<u>\$1.27</u>	<u>\$1.92</u>	<u>\$1.86</u>	<u>\$0.68</u>	<u>\$1.26</u>	<u>\$3.39</u>	<u>\$3.18</u>	<u>\$3.14</u>	<u>\$3.40</u>
MISC. REVENUE	\$53.86	\$59.36	\$55.68	\$48.23	\$58.52	\$63.46	\$69.55	\$72.23	\$76.01
% CHANGE	2.2%	10.2%	-6.2%	-13.4%	21.3%	8.4%	9.6%	3.9%	5.2%
TOTAL GENERAL FUND*	\$857.08	\$901.50	\$951.84	\$1,043.47	\$1,173.07	\$1,288.10	\$1,350.94	\$1,391.86	\$1,482.14
% CHANGE	11.1%	5.2%	5.6%	9.6%	12.4%	9.8%	4.9%	3.0%	6.5%

* Totals may not add due to rounding.

GENERAL FUND REVENUE
(\$MILLION)

SOURCE	ACTUAL						FORECAST	
	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
INDIVIDUAL INCOME TAX	\$841.87	\$960.16	\$1,023.97	\$835.85	\$837.80	\$902.13	\$974.48	\$1,044.23
% CHANGE	8.5%	14.1%	6.6%	-18.4%	0.2%	7.7%	8.0%	7.2%
CORPORATE INCOME TAX	\$95.44	\$124.87	\$141.53	\$76.30	\$93.13	\$103.02	\$120.62	\$135.07
% CHANGE	-18.6%	30.8%	13.3%	-46.1%	22.1%	10.6%	17.1%	12.0%
SALES TAX	\$588.80	\$627.50	\$647.29	\$657.12	\$700.24	\$886.08	\$933.38	\$791.43
% CHANGE	18.5%	6.6%	3.2%	1.5%	6.6%	26.5%	5.3%	-15.2%
CIGARETTE TAX	\$7.23	\$7.30	\$7.98	\$8.00	\$8.26	\$30.04	\$7.50	\$8.10
TOBACCO PRODUCTS	\$0.00	\$0.00	\$4.06	\$4.31	\$4.67	\$5.49	\$5.70	\$5.90
BEER TAX	\$1.68	\$1.75	\$1.82	\$1.88	\$1.91	\$1.96	\$2.00	\$2.10
WINE TAX	\$1.90	\$1.96	\$1.90	\$1.88	\$1.97	\$2.14	\$2.30	\$2.35
LIQUOR SURCHARGE	<u>\$4.95</u>	<u>\$4.95</u>	<u>\$4.95</u>	<u>\$4.95</u>	<u>\$4.95</u>	<u>\$4.95</u>	<u>\$4.95</u>	<u>\$4.95</u>
PRODUCT TAXES	\$15.76	\$15.96	\$20.70	\$21.02	\$21.75	\$44.57	\$22.45	\$23.40
% CHANGE	-0.5%	1.2%	29.7%	1.5%	3.5%	104.9%	-49.6%	4.2%
KILOWATT-HOUR TAX	\$2.89	\$2.77	\$1.80	\$1.79	\$1.80	\$1.83	\$1.80	\$1.80
MINE LICENSE TAX	\$1.98	(\$0.66)	\$0.12	\$0.82	\$0.04	\$0.07	\$0.03	\$0.05
INTEREST EARNINGS	\$18.69	\$21.56	\$22.30	\$11.33	\$2.98	\$4.97	\$5.80	\$4.50
COURT FEES AND FINES	\$5.13	\$5.31	\$5.49	\$5.19	\$5.29	\$4.98	\$4.90	\$4.98
INSURANCE PREMIUM TAX	\$45.47	\$46.43	\$55.88	\$55.37	\$59.49	\$62.77	\$58.72	\$58.77
ALCOHOLIC BEVERAGE LICENSES	\$1.16	\$1.30	\$1.22	\$1.36	\$1.39	\$1.61	\$1.64	\$1.66
UCC FILINGS	\$0.01	\$0.02	\$2.01	\$2.03	\$2.14	\$2.39	\$2.50	\$2.50
UNCLAIMED PROPERTY	\$1.59	\$2.31	\$5.81	\$0.88	\$3.76	\$3.69	\$2.50	\$2.50
LANDS	\$0.32	\$0.70	\$0.34	\$0.35	\$0.36	\$0.33	\$0.33	\$0.33
ONE-TIME TRANSFERS	\$0.43	\$0.57	\$8.08	\$15.42	\$14.46	\$71.91	\$1.65	\$0.00
ESTATE TAX	\$0.00	\$0.00	\$35.81	\$7.59	\$13.65	\$4.43	\$3.65	\$0.00
OTHER DEPTS & TRANSFERS	<u>\$4.91</u>	<u>\$12.15</u>	<u>\$12.29</u>	<u>\$8.01</u>	<u>\$5.67</u>	<u>\$2.33</u>	<u>\$22.43</u>	<u>\$18.86</u>
MISC. REVENUE	\$82.57	\$92.46	\$151.15	\$110.14	\$111.02	\$161.31	\$105.95	\$95.95
% CHANGE	8.6%	12.0%	63.5%	-27.1%	0.8%	45.3%	-34.3%	-9.4%
TOTAL GENERAL FUND*	\$1,624.43	\$1,820.96	\$1,984.64	\$1,700.43	\$1,763.95	\$2,097.10	\$2,156.86	\$2,090.07
% CHANGE	9.6%	12.1%	9.0%	-14.3%	3.7%	18.9%	2.8%	-3.1%

* Totals may not add due to rounding.

INDIVIDUAL INCOME TAX

Description: (Title 63, Chapter 30, *Idaho Code*)

Collections from the individual income tax are based on a graduated scale of tax rates that are applied to brackets of Idaho taxable income. Current and past individual income tax rates and brackets are detailed in the following table.

INDIVIDUAL INCOME TAX RATE HISTORY

TAX	Tax Rates on the Portion of Taxable Income ⁽¹⁾								
YEARS	\$0-1000	\$1001-\$2000	\$2001-\$3000	\$3001-\$4000	\$4001-\$5000	\$5001-\$6000	\$6001-\$7500	\$7501-	\$20000+
1931	1.0%	1.0%	2.0%	2.0%	3.0%	3.0%	4.0%	4.0%	4.0%
1933	1.0%	2.0%	3.0%	4.0%	5.0%	6.0%	6.0%	6.0%	6.0%
1935	1.5%	3.0%	4.0%	5.0%	6.0%	8.0%	8.0%	8.0%	8.0%
1955 ²	1.61%	3.23%	4.30%	5.38%	6.45%	8.60%	8.60%	8.60%	8.60%
1957 ³	2.0%	4.0%	5.5%	6.6%	7.7%	8.8%	8.8%	8.8%	8.8%
1959	3.5%	5.0%	6.5%	7.5%	8.5%	9.5%	9.5%	9.5%	9.5%
1963	3.4%	5.5%	7.2%	8.25%	9.35%	10.5%	10.5%	10.5%	10.5%
1965	2.5%	5.0%	6.0%	7.0%	8.0%	9.0%	9.0%	9.0%	9.0%
1972	2.0%	4.0%	4.5%	5.5%	6.5%	7.5%	7.5%	7.5%	7.5%
1987	2.0%	4.0%	4.5%	5.5%	6.5%	7.5%	7.5%	7.8%	8.2%
2000	\$0-1022	\$1023-2044	\$2045-3066	\$3067-4088	\$4089-5110	\$5111-7666	\$7667-20,442	\$20443+	
	1.9%	3.9%	4.4%	5.4%	6.4%	7.4%	7.7%	8.1%	
2001	\$0-1056	\$1057-2113	\$2114-3169	\$3170-4226	\$4227-5282	\$5283-7923	\$7924-21129	\$21130+	
	1.6%	3.6%	4.1%	5.1%	6.1%	7.1%	7.4%	7.8%	
2002	\$0-1087	\$1088-2173	\$2174-3260	\$3261-4346	\$4347-5433	\$5434-8149	\$8150-21730	\$21731+	
2003	\$0-1104	\$1105-2207	\$2208-3311	\$3312-4415	\$4416-5518	\$5519-8278	\$8279-22074	\$22075+	
2004	\$0-1129	\$1130-2258	\$2259-3387	\$3388-4515	\$4516-5644	\$5645-8466	\$8467-22577	\$22577+	

1. Amounts shown are for single and married filing separate returns.

For all other filing status returns double the income bracket amounts at the top of the columns.

2. Rates shown include 7.5% surcharge on all brackets. Effective in 1955 and 1956.

3. Rates shown include 10% surcharge on brackets greater than \$2000. Effective in 1957 and 1958.

Idaho taxable income is derived from federal adjusted gross income (AGI). For Idaho residents, income from all states is taxable in Idaho, with credit provided for taxes paid to other states. For non-residents, only income earned in Idaho is subjected to Idaho income tax. For part-year residents, income from all states is taxable during the period of Idaho residency, while only income earned in Idaho is subjected to Idaho income tax during the period of non-residency.

Although Idaho conforms to most of the federal income tax provisions for determining taxable income, a number of differences exist. Idaho's definition of taxable income excludes 100% of social security income, 60% of certain capital gains, and 100% of interest earned on U.S. government securities. For a complete delineation of Idaho's income tax structure, refer to the tax structure section of this publication.

Idaho also provides a number of credits that are not included in the federal tax code. These include an investment tax credit, credit for contributions to educational entities, and several credits linked to investments in broadband equipment, research activities, and job creation. Again, for a complete delineation of Idaho's income tax structure, refer to the tax structure section of this publication.

Idaho income derived from wages and salaries is subject to payroll withholding. Idaho does not require estimated payments for individual income tax, so tax payments derived from business income and most investment income are paid when the tax return is due (typically April 15th following the end of the tax year). A number of Idaho taxpayers make voluntary estimated payments at the end of the tax year (typically December 31st) in order to claim the payment on the same year's federal income tax return.

Since the enactment of Idaho's income tax in 1931, all net tax liability, interest, and penalties have been distributed to the General Fund. Beginning in FY 2001, withholding collections on Idaho lottery winnings are distributed to public schools and counties. An amount equal to 20% of the individual income taxes collected by the State Tax Commission and deposited with the State Treasurer is required by statute to be deposited in the State Income Tax Refund Fund. Any balance exceeding \$400,000 in the State Income Tax Refund Fund at the end of the year is transferred to the General Fund on June 30.

A separate filing tax of \$10 per income tax return has been assessed since 1959. Proceeds of the filing tax went to the General Fund until 1961 when their distribution was changed to the Permanent Building Fund. The income tax return form includes a variety of other "check offs" that can be used by the taxpayer to donate various amounts (usually from refunds) to special funds such as non-game wildlife, drug enforcement, etc.

Basis of Projection:

The projections of General Fund revenue from the individual income tax for FY 2005 and FY 2006 are based on a combination of econometric analysis and judgment.

The econometric analysis begins with the Idaho Economic Model (IEM), an economic base model of Idaho's economy that is used to derive employment by industry and by income type. Idaho income data is then used to correlate historical net withholding collections (gross withholding collections less refunds) to Idaho wage and salary payments. Filing collections are estimated using proprietors' income as the primary explanatory variable.

The econometric-based forecast of net withholding collections and filing collections are then adjusted to reflect: a) new features of the tax law that are expected to impact future collections and accruals, and b) effects of other factors that are expected to have impacts not reflected in the econometric analysis.

The forecast that follows assumes no further change in current Idaho income tax law, a standard practice of the Division's revenue forecasts.

Historical Data:

INDIVIDUAL INCOME TAX

(\$ THOUSANDS)

Year		Gross Collections	Distributions		
			Refunds	Gen. Fund	Misc. "Check-Off" Donations
FY70	Actual	\$45,142.4	\$6,603.4	\$35,858.8	\$1,120.0
FY71	Actual	51,186.4	7,512.8	40,738.9	1,104.3
FY72	Actual	64,107.9	9,460.1	51,235.1	1,040.2
FY73	Actual	76,510.6	13,658.2	59,164.7	977.7
FY74	Actual	95,374.0	16,058.6	75,103.7	973.4
FY75	Actual	117,911.0	23,372.8	89,566.5	1,046.8
FY76	Actual	131,064.3	24,436.3	99,387.0	940.7
FY77	Actual	150,650.7	29,844.0	116,587.3	920.6
FY78	Actual	169,195.1	24,210.7	143,660.6	39.6
FY79	Actual	198,231.0	31,245.2	163,203.8	907.8
FY80	Actual	212,761.8	35,322.8	172,620.9	1,081.4
FY81	Actual	242,743.6	41,262.4	196,892.1	1,093.2
FY82	Actual	264,162.3	45,070.0	215,835.5	1,082.1
FY83	Actual	272,845.0	56,725.0	212,356.6	1,064.1
FY84	Actual	287,957.0	54,731.7	230,002.0	3,008.0
FY85	Actual	314,955.9	62,164.8	249,277.9	3,322.7
FY86	Actual	324,704.5	63,132.6	258,065.2	3,275.8
FY87	Actual	331,393.7	63,191.4	264,128.9	3,842.1
FY88	Actual	340,376.7	50,486.1	287,156.0	2,581.4
FY89	Actual	394,403.4	47,582.5	343,077.5	3,551.4
FY90	Actual	459,019.4	56,873.5	398,284.0	3,668.1
FY91	Actual	508,711.2	72,282.6	432,218.3	3,984.1
FY92	Actual	543,233.5	80,435.4	459,438.2	3,157.0
FY93	Actual	609,443.1	96,209.4	508,023.1	4,998.9
FY94	Actual	671,419.7	107,859.3	559,166.6	4,215.4
FY95	Actual	724,809.1	123,717.5	596,457.5	4,459.0
FY96	Actual	770,804.9	115,072.5	650,850.0	4,708.5
FY97	Actual	830,855.9	121,650.3	704,819.9	4,236.1
FY98	Actual	914,961.2	133,761.8 ¹	776,192.0	4,817.3
FY99	Actual	989,401.5	142,174.4	841,865.0	5,107.5
FY00	Actual	1,113,448.3	147,853.6	960,163.7	5,041.1
FY01	Actual	1,200,254.7	169,727.3	1,023,970.2	6,073.1
FY02	Actual	1,033,900.3	191,524.7	835,854.8	5,636.6
FY03	Actual	1,061,760.0	189,691.0	837,798.6	5,358.3
FY04	Actual	1,097,096.6	189,116.2	902,125.5	5,346.8
FY05	Projection	1,167,824.5	187,046.7	974,477.8	5,500.0
FY06	Projection	1,247,591.8	196,962.7	1,044,229.1	5,600.0

CORPORATE INCOME TAX

Description: (Title 63, Chapter 30, *Idaho Code*)

Collections from the corporate income tax are currently based on a flat rate of 7.6% applied to taxable income. For a listing of earlier rates refer to the following table. Beginning with tax year 1987, Idaho conformed to the changes made by the Tax Reform Act of 1986, except for the federal investment tax credit repeal. Idaho continues to allow a 3% credit that is tied to the federal definition of eligible property. For tax year 2001, an additional “incentive” investment tax credit was allowed in low income/high unemployment counties. Extra credits are also allowed for investments in broadband equipment, research activities, and job creation. See the tax structure section of this publication for details. Also, since September 1987, Idaho has required that corporations file quarterly payments of estimated taxes. This provision is based upon federal rules and was phased in over a two-year period.

CORPORATE INCOME TAX RATE HISTORY

Tax Rates on the Portion of Income:									
Greater Than		\$0	\$1,000	\$2,000	\$3,000	\$4,000	\$5,000	\$6,000	
But Not More Than		\$1,000	\$2,000	\$3,000	\$4,000	\$5,000	\$6,000		
Tax Years	1931	1.0%	1.0%	2.0%	2.0%	3.0%	3.0%	4.0%	
	1933	1.0%	2.0%	3.0%	4.0%	5.0%	6.0%	6.0%	
	1935	1.5%	3.0%	4.0%	5.0%	6.0%	6.0%	8.0%	
	1954	1.28%	2.55%	3.40%	4.25%	5.10%	5.10%	6.80%	
	1955	7.5%	Beginning of Single "Flat" Tax Rate on all Positive Net Taxable Income						
	1957	8.0% + 10% Surcharge in 1957 and 1958.							
	1959	9.5%							
	1963	10.5%							
	1965	6.0%							
	1972	6.5%							
	1981	6.5% + 0.2% franchise tax up to \$250,000.							
	1983	7.7%							
	1987	8.0%							
2001	7.6%								

Since its enactment in 1931, all net tax liability, interest, and penalties associated with the corporate income tax have been distributed to the General Fund. An amount equal to 20% of the corporate income taxes collected by the State Tax Commission and deposited with the State Treasurer is required by statute to be deposited in the State Income Tax Refund Fund. Any balance exceeding \$400,000 in the State Income Tax Refund Fund at the end of the year is transferred to the General Fund on June 30. An additional filing tax of \$10 per tax return has been assessed since 1959. Proceeds of the filing tax went to the General Fund until 1961, when their distribution was changed to the Permanent Building Fund.

Basis of Projection:

Projections of the General Fund revenue from the corporate income tax are based on a combination of econometric analysis, a simulation model of the cash-flow process under quarterly payments, and judgment. Historical corporate income tax collections are correlated with income and financial concepts found in the IEM and Global Insight's *U.S. Economic Outlook*.

The revenue collected in FY 1991 declined as a consequence of declines in one-time cash flow from quarterly payments. Quarterly payments have also accelerated the response time between changes in profit conditions and corporate income tax cash flow. When combined with multi-state apportionment, this yields an accelerated link between national economic conditions and Idaho corporate income tax receipts.

Historical Data:

CORPORATE INCOME TAX

(\$ THOUSANDS)

Year		Gross Collections	Distributions		
			Refunds	Gen. Fund	Perm. Building Fund Multi-State Tax Compact
FY70	Actual	\$11,125.8	\$1,661.1	\$10,645.6	\$52.1
FY71	Actual	12,562.9	1,875.8	11,736.1	57.5
FY72	Actual	12,895.0	1,924.9	12,276.3	62.7
FY73	Actual	16,024.7	3,340.0	15,220.2	68.7
FY74	Actual	23,076.0	4,021.6	22,161.0	74.0
FY75	Actual	28,161.7	5,616.1	26,978.7	81.1
FY76	Actual	31,751.8	2,215.4	29,448.9	87.6
FY77	Actual	31,033.6	1,931.6	29,009.9	92.1
FY78	Actual	33,326.2	2,481.8	30,802.9	41.5
FY79	Actual	39,247.1	3,322.2	35,869.3	55.5
FY80	Actual	42,603.9	3,133.3	39,363.2	107.4
FY81	Actual	50,875.5	4,416.2	46,288.4	127.2
FY82	Actual	45,602.0	5,416.2	40,010.6	146.4
FY83	Actual	39,673.6	10,191.3	29,281.3	149.0
FY84	Actual	42,226.7	15,504.7	26,535.3	116.6
FY85	Actual	49,660.1	6,698.2	42,788.0	133.6
FY86	Actual	50,253.2	6,900.6	43,138.4	150.2
FY87	Actual	53,276.8	6,878.1	46,165.9	190.9
FY88	Actual	74,230.7	10,070.2	63,906.1	160.3
FY89	Actual	80,394.1	7,152.7	72,962.6	209.6
FY90	Actual	82,635.9	9,914.5	72,492.0	212.3
FY91	Actual	72,265.0	11,995.9	60,017.2	252.0
FY92	Actual	71,443.1	13,162.9	57,971.3	194.2
FY93	Actual	83,582.6	13,194.3	70,003.8	282.0
FY94	Actual	102,772.3	14,870.6	87,628.2	196.8
FY95	Actual	152,809.5	20,818.3	131,636.1	250.7
FY96	Actual	173,392.5	21,128.3	151,979.2	246.7
FY97	Actual	138,276.6	15,479.0	122,357.2	249.5
FY98	Actual	136,996.0	19,301.9	117,286.4	283.7
FY99	Actual	117,073.9	20,927.4	95,437.7	270.0
FY00	Actual	149,355.2	23,495.3	124,872.9	303.6
FY01	Actual	173,578.8	31,593.0	141,527.2	349.0
FY02	Actual	110,751.2	33,982.3	76,295.6	312.0
FY03	Actual	119,810.7	26,320.8	93,129.7	345.2
FY04	Actual	126,911.5	23,127.1	103,015.0	367.8
FY05	Projection	147,339.0	24,342.0	120,617.0	380.0
FY06	Projection	164,483.0	27,018.0	135,065.0	400.0

SALES TAX

Description: (Title 63, Chapter 36, *Idaho Code*)

Sales tax collections in fiscal years 2004 and 2005 are based on a temporary rate of 6% applied to the sales price or value of tangible personal property and services that are subject to sales and use taxation. The sales tax rate returns to 5% on July 1, 2005. Beginning in fiscal year 2005, the Agricultural Equipment Property Tax Exemption is funded by the Sales Tax. The rate and distribution history is shown on the following table.

SALES TAX RATE HISTORY AND DISTRIBUTION FORMULA

(\$ THOUSANDS)

Effective Date	Tax Rate	Gen. Fund	Perm. Build Fund	Rev. Sharing	Alloc. to Counties ⁷	Pollut-ion Control	Public School Inc. Fund	Agricultural Equipment Prop. Tax Exemption	Misc. Distributions
Jul-1965	<u>3.0%</u>	Bal.	\$500						<u>1.2</u>
Jul-1968	3.0%	Bal.	\$500		<u>5.0%</u>				2
Jul-1969	3.0%	Bal.	\$500		<u>10.0%</u>				2
Jul-1970	3.0%	Bal.	\$500		<u>15.0%</u>				2
Jul-1971	3.0%	Bal.	\$500		<u>20.0%</u>				2
Jul-1975	3.0%	Bal.	\$500		20.0%				2,4
Jul-1976	3.0%	Bal.	\$500		20.0%				2,4
Jul-1977	3.0%	Bal.	\$500		20.0%				2,3,4
Jul-1980	3.0%	Bal.	\$500		<u>10.0%</u>		<u>10.0%</u>		2,3,4
Mar-1983	<u>4.0%</u>	Bal.	\$500		10.0%		10.0%		2,3,4
Jun-1983	<u>4.5%</u>	Bal.	\$500		10.0%		10.0%		2,3,4
Jul-1984	<u>4.0%</u>	Bal.	\$500	<u>6.25%</u>	<u>7.5%</u>	<u>\$4,800</u>			3,4
Apr-1986	<u>5.0%</u>	Bal.	\$500	6.25%	7.5%	\$4,800			3,4
Jul-1987	5.0%	Bal.	\$500	<u>7.75%</u>	<u>6.0%</u>	\$4,800			3,4
Jul-1988	5.0%	Bal.	\$500	7.75%	6.0%	\$4,800			3,4,5
Jul-1995	5.0%	Bal.	\$500	7.75%	6.0%	\$4,800			3,4,5,6
Jul-1998	5.0%	Bal.	\$500	7.75%	6.0%	\$4,800			3,4,5
Jul-2000	5.0%	Bal.	<u>\$5,000</u>	<u>13.75%</u>	<u>0.0%</u>	<u>\$4,800</u>			3,4,5
May-2003	<u>6.0%</u>	Bal.	\$5,000	13.75%	0.0%	\$4,800			3,4,6
Jun-2003	6.0%	Bal.	\$5,000	<u>11.50%</u>	0.0%	\$4,800			3,4,5
Jul-2004	6.0%	Bal.	\$5,000	11.50%	0.0%	\$4,800		<u>\$13,448</u>	3,4,5
Jul-2005	<u>5.0%</u>	Bal.	\$5,000	11.50%	0.0%	\$4,800		\$13,448	3,4,5
Aug-2005	5.0%	Bal.	\$5,000	<u>13.75%</u>	0.0%	\$4,800		\$13,448	3,4,5

1. Amount equal to 1-mill of all assessed property values distributed to Teachers Retirement System; \$1,000,000 lump sum (one-time) distribution to Tax Commission.
2. Amount equal to the sum required to be certified by the state controller distributed to the Social Security Trust Fund.
3. Amount equal to the sum required to be certified by the Idaho housing agency.
4. \$1.00 per registration fee on vehicle registration transfers that do not involve sales tax.
5. Amount certified by the Tax Commission as necessary to fund the Circuit Breaker.
6. Amount necessary to fund Property Tax Relief.
7. For the period March 1983 through June 1984 this percentage was applied only to the 3% "base" sales tax rate. Beginning in 2000, this allocation was "folded into" the revenue sharing allocation.

Sales tax funds must be allocated to the Idaho Housing and Finance Association if, within 60 days of the close of the fiscal year, the Chairman of the Housing and Finance Association Board of Commissioners certifies to the State Tax Commission that a deficiency exists in the agency's Capital Reserve Fund. No such certification has been made in any year, nor is one anticipated for the current fiscal year. Beginning in 1996, this provision is limited to no more than \$89 million. Also, it only applies to bonds issued prior to 1996. In effect, this provision has been repealed for bonds issued on or after January 1996.

Basis of Projection:

The projections of FY 2005 and FY 2006 net General Fund accruals from the sales tax are based on econometric analysis and judgment. Historic monthly gross collections data are first adjusted for changes in the tax rate and any major collection anomalies. The adjusted data is then related to Idaho wage and salary disbursements and construction data using econometric analysis. Income forecasts from the *Idaho Economic Forecast* are then used to forecast gross sales tax collections. Historical refund levels and the current distribution formula are used to translate gross collections to net General Fund accruals. Judgmental considerations include the results of ongoing revenue monitoring and the expected impacts of new compliance and audit activities.

SALES TAX (\$ THOUSANDS)

			Distributions									
			Refunds	Gen. Fund	Perm. Building Fund	Rev. Sharing	Alloc. To Counties	Pollut- ion Control	Circuit Breaker	Property Tax Relief	Agricultural Equipment Prop. Tax Exemption	Misc. Dist.
Year		Gross Collections										
FY70	Actual	\$41,678.2	\$61.6	\$33,055.0	\$500.0		\$4,161.7					\$3,899.9 ^{1,2}
FY71	Actual	45,368.6	101.9	34,076.7	500.0		6,790.0					3,900.0 ^{1,2}
FY72	Actual	51,704.1	81.1	36,967.1	500.0		10,324.6					3,831.3 ^{1,2}
FY73	Actual	60,999.6	70.3	43,281.3	500.0		12,186.1					4,961.9 ^{1,2}
FY74	Actual	69,833.3	340.7	49,250.0	500.0		13,898.5					5,844.1 ^{1,2}
FY75	Actual	79,108.7	100.4	57,022.8	500.0		15,801.7					5,683.8 ¹
FY76	Actual	88,874.0	137.5	63,650.6	500.0		17,747.3					6,838.6 ¹
FY77	Actual	103,859.6	219.2	73,594.5	500.0		20,728.1					8,817.8 ¹
FY78	Actual	118,866.2	157.0	84,107.4	500.0		23,741.8					10,360.0 ¹
FY79	Actual	129,906.4	205.9	91,463.6	500.0		25,940.1					11,796.8 ¹
FY80	Actual	137,113.9	264.5	95,984.6	500.0		27,369.9					12,994.9 ¹
FY81	Actual	145,008.0	220.5	97,679.3	500.0		14,476.0					32,132.2 ^{1,2}
FY82	Actual	146,206.9	311.8	98,720.2	500.0		14,607.4					32,067.5 ^{1,2}
FY83	Actual	165,441.1	181.2	115,407.0	500.0		15,266.3					34,086.6 ^{1,2}
FY84	Actual	241,838.4	596.2	188,422.1	500.0		16,192.2					36,127.9 ^{1,2}
FY85	Actual	238,544.3	449.7	200,026.6	500.0	\$14,876.1	17,851.5	\$4,800.0				40.4 ³
FY86	Actual	250,490.1	516.8	211,564.2	500.0	15,036.7	18,044.1	4,800.0				28.3 ³
FY87	Actual	297,892.0	538.4	259,358.6	500.0	14,853.3	17,827.1	4,800.0				14.6 ³
FY88	Actual	311,382.5	672.5	258,762.1	500.0	24,084.5	18,637.1	4,800.0	\$3,890.1			36.2 ³
FY89	Actual	346,682.3	882.4	288,780.3	500.0	26,785.4	20,737.1	4,800.0	4,171.7			25.4 ³
FY90	Actual	383,096.0	1,664.0	319,290.7	500.0	29,540.7	22,870.2	4,800.0	4,335.5			94.9 ³
FY91	Actual	404,146.4	3,403.1	335,739.5	500.0	31,036.1	24,028.3	4,800.0	4,491.1			148.3 ³
FY92	Actual	435,715.5	1,799.1	364,323.0	500.0	33,612.2	26,022.6	4,800.0	4,606.1			52.5 ³
FY93	Actual	481,357.9	1,163.9	402,819.5	500.0	37,195.6	28,796.9	4,800.0	6,031.2			50.8 ³
FY94	Actual	541,503.6	1,739.0	452,684.8	500.0	41,789.3	32,353.2	4,800.0	7,504.3			132.9 ³
FY95	Actual	575,751.5	1,767.4	481,568.8	500.0	44,455.1	34,435.8	4,800.0	8,241.1			-16.6 ³
FY96	Actual	602,573.0	2,114.2	462,999.7	500.0	46,554.3	36,023.2	4,800.0	8,807.0	40,757.1		17.6 ³
FY97	Actual	624,631.8	2,109.4	476,726.1	500.0	48,240.6	37,347.6	4,800.0	9,609.0	45,238.4		60.7 ³
FY98	Actual	655,182.6	2,023.6	496,807.8	500.0	50,572.4	39,152.8	4,800.0	10,331.1	50,400.4		594.5 ³
FY99	Actual	704,734.8	2,784.7	588,796.7	500.0	54,237.7	41,979.4	4,800.0	10,891.7	0.0		744.6 ³
FY00	Actual	750,125.9	2,741.7	627,503.0	500.0	57,852.8	44,754.6	4,800.0	11,481.2	0.0		492.7 ³
FY01	Actual	778,886.9	3,464.1	647,293.8	5,000.0	106,024.7	0.0	4,800.0	11,711.3	0.0		593.0 ³
FY02	Actual	791,623.6	4,103.4	657,119.2	5,000.0	108,500.4	0.0	4,800.0	11,983.5	0.0		117.0
FY03	Actual	839,180.9	3,119.1	700,240.7	5,000.0	112,947.4	0.0	4,800.0	12,787.1	0.0		286.6
FY04	Actual	1,032,987.5	4,312.6	886,079.0	5,000.0	117,825.4	0.0	4,800.0	14,097.7	0.0		872.8
FY05	Projected	1,109,262.1	5,546.3	933,378.0	5,000.0	126,927.3	0.0	4,800.0	14,800.0	0.0	16,810.6	2,000.0
FY06	Projected	968,356.8	4,836.8	791,425.0	5,000.0	132,346.5	0.0	4,800.0	15,500.0	0.0	13,448.5	1,000.0

1. Social Security Trust.

2. Public School Income.

3. Multi-State Tax Compact.

CIGARETTE TAX

Description: (Title 63, Chapter 25, *Idaho Code*)

The cigarette tax rate was temporarily raised from 28 cents per pack to 57 cents per pack on June 1, 2003. The revenues collected are distributed as follows. The Public School Income Fund and Department of Juvenile Corrections each receive 5.1746 cents per pack. Of the remaining 46.6508 cents per pack, the Permanent Building Fund receives 17.30%; the Central Tumor Registry Fund receives 0.40% (to a maximum of the legislative appropriation); the Cancer Control Fund receives 1.00%; and the General Fund receives 21.25%. For fiscal year 2004, all remaining collections, up to \$23,500,000, are allocated to the General Fund. Any monies in excess of the \$23,500,000 are deposited in the Economic Recovery Reserve Fund. In fiscal year 2005, none of the remaining collections go to the General Fund, but instead they are distributed to the Economic Recovery Fund.

The cigarette tax rate returns to 28 cents per pack on July 1, 2005. Five cents per pack of cigarettes are distributed to the Public School Income Fund and five cents are deposited with Department of Juvenile Corrections. Of the remaining 18 cents per package of cigarettes, 43.3% is distributed to the Permanent Building Fund; 1% (to a maximum of the legislative appropriation) is distributed to the Central Tumor Registry Fund; 2.5% is distributed to the Cancer Control Fund; and the remainder is distributed to the General Fund.

CIGARETTE TAX RATE AND DISTRIBUTION HISTORY

Effective Date	Rate per Cigarette			Distribution of Remaining Receipts					
	Total	PSIF	Juv. Prob. Svcs.	Gen. Fund	Central Tumor Reg. Fund ^{2,3}	Perm. Build. Fund	Water Poll. Control	Cancer Control Fund	Economic Recovery Reserve Fund
May-1945	\$0.001000			100.0%					
Jul-1947	<u>0.001500</u>			100.0%					
Jul-1955	<u>0.002000</u>			100.0%					
Jul-1959	<u>0.002500</u>			100.0%					
Jul-1961	<u>0.003000</u>			<u>\$0.00250</u>		<u>\$0.00050</u>			
Jul-1963	<u>0.003500</u>			<u>\$0.00300</u>		0.00050			
Jul-1972	<u>0.004550</u>			<u>\$0.00350</u>	<u>\$0.00005</u> to <u>\$40,000</u>	0.00050	<u>\$0.00050</u>		
Jul-1974	0.004550			Balance	1.099% to \$40,000	10.989%	10.989%		
Jul-1975	0.004550			Balance	1.099% to <u>\$55,000</u>	10.989%	10.989%		
Jul-1978	0.004550			Balance	1.099% to <u>\$70,000</u>	10.989%	10.989%		
Jul-1979	0.004550			Balance	1.099% to \$70,000	10.989%	10.989%	3.645%	
Jul-1980	0.004550			Balance	1.099% to <u>\$85,000</u>	10.989%	10.989%	3.645%	
Jul-1982	0.004550			Balance	1.099% to <u>\$95,000</u>	10.989%	10.989%	3.645%	
Jul-1984	0.004550			Balance	1.099% to \$100,000	10.989%	10.989%	3.645%	
Mar-1987	<u>0.009000</u> ¹			Balance ¹	1.099% to \$100,000	10.989%	10.989%	3.645%	
Jul-1987	0.009000			Balance	<u>1.000%</u> to \$100,000	<u>43.300%</u>	<u>6.700%</u>	<u>2.500%</u>	
Jul-1989	0.009000			Balance	1.000% to <u>\$110,000</u>	43.300%	6.700%	2.500%	
Jul-1994	<u>0.014000</u>	<u>\$0.00500</u>		Balance	1.000%	43.300%	6.700%	2.500%	
Mar-1995	0.014000	<u>0.002500</u>	<u>0.002500</u>	Balance	1.000%	43.300%	6.700%	2.500%	
Jul-2000	0.014000	0.002500	0.002500	Balance	1.000%	43.300%	<u>0.000%</u>	2.500%	
Jun-2003	<u>0.028500</u>	<u>0.051746</u>	<u>0.051746</u>	Balance	1.000%	43.300%	0.000%	2.500%	
Jul-2003	0.028500	0.051746	0.051746	21.25% plus balance up to \$23.5 M	<u>0.400%</u>	<u>17.300%</u>	<u>0.000%</u>	<u>1.000%</u>	Balance above \$23.5M
Jul-2004	0.028500	0.051746	0.051746	<u>21.25%</u>	0.400%	17.300%	0.000%	1.000%	Balance
Jul-2005	<u>0.014000</u>	<u>0.002500</u>	<u>0.002500</u>	Balance	<u>1.000%</u>	<u>43.300%</u>	<u>0.000%</u>	<u>2.500%</u>	<u>\$0.000</u>

1. From March 1, 1987 to July 1, 1987 the additional \$0.0045 was all distributed to the General Fund.

2. The Central Tumor Registry Fund receives the lesser of its percentage or its dollar cap.

3. On July 1, 1994 the \$110,000 limit was replaced with a limit not to exceed the legislative appropriation.

Basis of Projection:

The projections of General Fund revenues from this source for FY 2005 and FY 2006 are based on a subjective assessment of recent collections history, Idaho population growth, cigarette taxes in border states, and the trend toward decreased per capita cigarette consumption.

Historical Data:

CIGARETTE TAX

(\$ THOUSANDS)

		Gross Collections	Distributions								
			Gen. Fund	Perm. Building Fund	Refunds	Water Pollution Fund	Cancer Control Fund	Central Tumor Registry Fund	Public School Income Fund	County Juvenile Probation Fund	Economic Recovery Fund
Year											
FY70	Actual	\$4,885.9	\$4,188.0	\$697.9							
FY71	Actual	5,173.4	4,434.4	739.0							
FY72	Actual	6,136.8	5,260.2	876.6							
FY73	Actual	8,074.5	6,248.4	867.1		\$919.1		\$40.0			
FY74	Actual	8,365.7	6,475.7	925.0		925.0		40.0			
FY75	Actual	8,544.4	6,599.6	939.1	\$26.6	939.1		40.0			
FY76	Actual	8,866.2	6,868.8	959.9	22.5	959.9		55.0			
FY77	Actual	8,980.5	6,926.6	983.8	31.3	983.8		55.0			
FY78	Actual	9,098.5	7,010.6	995.0	43.0	995.0		55.0			
FY79	Actual	8,919.2	6,841.5	974.2	59.2	974.2		70.0			
FY80	Actual	9,009.1	6,580.3	981.9	69.3	981.9	\$325.7	70.0			
FY81	Actual	9,331.1	6,802.3	1,017.8	70.7	1,017.8	337.6	85.0			
FY82	Actual	9,244.3	6,717.1	1,004.7	99.5	1,004.7	333.2	85.0			
FY83	Actual	9,288.9	6,746.1	1,010.8	91.0	1,010.8	335.3	95.0			
FY84	Actual	8,989.8	6,523.7	978.0	90.8	978.0	324.4	95.0			
FY85	Actual	8,854.8	6,405.2	960.1	114.9	960.1	318.5	96.0			
FY86	Actual	8,536.9	6,150.2	922.3	143.9	922.3	305.9	92.2			
FY87	Actual	10,552.8	8,193.4	911.8	142.2	911.8	302.4	91.2			
FY88	Actual	15,033.9	6,921.0	6,399.8	253.8	989.8	369.5	100.0			
FY89	Actual	14,782.8	6,792.8	6,283.4	271.6	972.3	362.8	100.0			
FY90	Actual	12,738.7	5,884.3	5,464.3	119.1	845.5	315.5	110.0			
FY91	Actual	14,696.2	6,863.4	6,356.8	15.4	983.6	367.0	110.0			
FY92	Actual	15,205.6	7,072.3	6,547.2	85.0	1,013.1	378.0	110.0			
FY93	Actual	15,029.6	6,995.1	6,490.5	40.0	1,004.3	374.7	125.0			
FY94	Actual	16,394.3	7,605.6	7,047.1	119.4	1,090.4	406.9	125.0			
FY95	Actual	23,270.6	7,245.6	6,733.5	63.8	1,041.9	388.8	141.0	\$6,537.6	\$1,118.4	
FY96	Actual	25,228.0	7,476.5	6,944.0	281.9	1,074.5	400.9	141.0	4,454.6	4,454.6	
FY97	Actual	25,053.3	7,486.5	6,953.0	74.7	1,075.9	401.4	141.0	4,460.4	4,460.4	
FY98	Actual	24,951.0	7,476.9	6,944.3	3.7	1,074.5	400.9	141.0	4,454.8	4,454.8	
FY99	Actual	24,195.2	7,230.0	6,732.5	8.9	1,041.7	388.7	155.5	4,318.9	4,318.9	
FY00	Actual	24,417.9	7,295.4	6,789.7	22.3	1,050.6	392.0	156.6	4,355.7	4,355.7	
FY01	Actual	23,550.6	7,980.8	6,495.7	214.9	0.0	375.0	150.0	4,167.1	4,167.1	
FY02	Actual	23,410.3	8,000.5	6,511.7	17.0	0.0	376.0	150.4	4,177.3	4,177.3	
FY03	Actual	24,215.0	8,259.9	6,722.9	63.1	0.0	388.2	155.3	4,312.8	4,312.8	
FY04	Actual	45,718.9	30,040.5	6,402.0	254.0	0.0	370.1	148.0	4,252.1	4,252.1	0.0
FY05	Projection	45,508.5	7,500.0	6,105.9	103.9	0.0	352.9	141.2	4,055.7	4,055.7	21,194.1
FY06	Projection	24,562.8	8,100.0	6,392.7	103.9	0.0	380.6	152.3	4,617.1	4,617.1	0.0

TOBACCO PRODUCTS TAX

Description: (Title 63, Chapter 25, *Idaho Code*)

Idaho levies a 35% tax on the wholesale price of tobacco products, except for cigarettes. This entire amount, net of refunds, is remitted to the General Fund. An additional 5% of the wholesale price is also collected. Half of this additional amount is earmarked for the Public School Income Fund, with \$250,000 appropriated to Idaho State Police. The other half of the 5% collected is distributed to the Department of Juvenile Corrections for county juvenile probation services.

TOBACCO TAX RATE AND DISTRIBUTION HISTORY

Effective Date	Percent of Wholesale Price Distributed to Fund			
	Water Poll. Control	General. Fund	Public School Income	Dept. of Juvenile Corr.
Jul-1972	35.0%	0.0%	0.0%	0.0%
Jul-1994	35.0%	0.0%	5.0%	0.0%
Mar-1995	35.0%	0.0%	2.5%	2.5%
Jul-1996	35.0%	0.0%	2.5% ¹	2.5%
Jul-2000	0.0%	35.0%	2.5% ¹	2.5%

¹ \$250,000 of this amount goes to Idaho State Police.

Basis of Projection:

The projections of General Fund revenues from this source for FY 2005 and FY 2006 are based on a subjective assessment of recent collections history, Idaho population growth, inflation, and the trend of reduced consumption of tobacco products.

Historical Data:**TOBACCO TAX**

\$ THOUSANDS

		Gross Collections	Distributions				
			Gen. Fund	Refunds	Water Pollution Fund	Public School Income Fund	County Juvenile Probation Fund
Year							
FY86	Actual	1,350.7	0.0	7.7	1,343.0	0.0	0.0
FY87	Actual	1,401.4	0.0	1.3	1,400.1	0.0	0.0
FY88	Actual	1,533.2	0.0	1.6	1,531.5	0.0	0.0
FY89	Actual	1,556.8	0.0	0.1	1,556.7	0.0	0.0
FY90	Actual	1,778.4	0.0	3.9	1,774.5	0.0	0.0
FY91	Actual	1,934.4	0.0	49.4	1,885.0	0.0	0.0
FY92	Actual	2,235.8	0.0	4.3	2,231.5	0.0	0.0
FY93	Actual	2,475.5	0.0	5.6	2,469.9	0.0	0.0
FY94	Actual	2,874.6	0.0	15.5	2,859.0	0.0	0.0
FY95	Actual	3,605.4	0.0	2.3	3,167.1	381.8	54.2
FY96	Actual	3,825.7	0.0	5.0	3,343.1	238.8	238.8
FY97	Actual	4,001.8	0.0	89.3	3,423.4	244.5	244.5
FY98	Actual	4,070.5	0.0	56.0	3,512.7	250.9	250.9
FY99	Actual	4,307.6	0.0	3.2	3,766.4	269.0	269.0
FY00	Actual	4,391.1	0.0	7.3	3,835.8	274.0	274.0
FY01	Actual	4,723.0	4,062.8	79.8	0.0	290.2	290.2
FY02	Actual	4,946.8	4,313.1	17.5	0.0	308.1	308.1
FY03	Actual	5,336.8	4,666.1	4.2	0.0	333.3	333.3
FY04	Actual	6,285.5	5,489.1	12.2	0.0	392.1	392.1
FY05	Projection	6,548.0	5,700.0	33.7	0.0	407.1	407.1
FY06	Projection	6,776.5	5,900.0	33.7	0.0	421.4	421.4

BEER TAX

Description: (Title 23, Chapter 10, *Idaho Code*)

A total tax of \$4.65 per 31-gallon barrel, or its equivalent, is levied on beer sold in Idaho. Of the total, 20% is distributed to the Alcoholism Treatment Fund, 33% to the Permanent Building Fund, and the remainder (47%) to the General Fund. Historical rates of the tax and its distribution are listed below.

BEER TAX RATE HISTORY AND DISTRIBUTION MECHANISM

Effective Date	Rate Per 31 Gal. Barrel	Distribution Mechanism
Mar-1935	\$1.55	50% to General Fund (GF); 50% to Public School Income Fund.
Jul-1939	\$1.55	100% to GF.
Jul-1947	\$3.10	100% to GF.
Jul-1961	\$4.65	\$3.10 to GF; \$1.55 to Permanent Building Fund (PBF).
Jul-1980	\$4.65	\$2.17 to GF; \$1.55 to PBF; \$.93 to Alcoholism Treatment Fund (ATF).
Jul-1986	\$4.65	47% to GF; 33% to PBF; 20% to ATF.

Basis of Projection:

The projections of General Fund revenue from this source for FY 2005 and FY 2006 are based on an assessment of recent collections, the slow decline in per capita beer consumption, and Idaho population growth.

Historical Data:

BEER TAX
(\$ THOUSANDS)

Year		Gross Collections	Distributions		
			Gen. Fund	Perm. Building Fund	Alcoholism Treatment Fund
FY70	Actual	\$1,989.6	\$1,326.5	\$663.1	
FY71	Actual	2,097.3	1,398.3	699.1	
FY72	Actual	2,316.1	1,544.1	772.0	
FY73	Actual	2,564.2	1,709.6	854.5	
FY74	Actual	2,690.0	1,793.4	896.5	
FY75	Actual	2,938.3	1,959.0	979.3	
FY76	Actual	3,062.9	2,023.2	1,011.6	\$28.1
FY77	Actual	3,241.1	2,144.3	1,072.0	24.8
FY78	Actual	3,326.7	2,200.7	1,100.3	25.7
FY79	Actual	3,466.0	2,291.6	1,145.7	28.6
FY80	Actual	3,516.2	2,326.4	1,163.2	26.6
FY81	Actual	3,215.4	1,498.8	1,068.9	4.7
FY82	Actual	3,574.6	1,669.0	1,190.5	0.9
FY83	Actual	3,532.0	1,650.3	1,176.0	0.0
FY84	Actual	3,442.5	1,607.0	1,147.1	0.0
FY85	Actual	3,422.2	1,597.5	1,140.1	0.5
FY86	Actual	3,312.6	1,545.5	1,103.5	1.6
FY87	Actual	3,311.6	1,554.9	1,091.8	3.2
FY88	Actual	3,251.7	1,527.6	1,072.6	1.4
FY89	Actual	3,244.5	1,509.9	1,060.1	31.9
FY90	Actual	3,304.6	1,552.1	1,089.8	2.2
FY91	Actual	3,414.7	1,602.5	1,125.2	5.1
FY92	Actual	3,525.6	1,656.9	1,163.4	0.3
FY93	Actual	3,621.6	1,701.6	1,194.7	1.2
FY94	Actual	3,643.1	1,711.8	1,201.9	1.0
FY95	Actual	3,521.7	1,654.1	1,161.4	2.3
FY96	Actual	3,455.6	1,620.9	1,138.1	7.0
FY97	Actual	3,468.6	1,629.9	1,144.4	0.8
FY98	Actual	3,445.8	1,619.4	1,137.0	0.2
FY99	Actual	3,585.6	1,683.9	1,182.3	2.8
FY00	Actual	3,737.0	1,754.2	1,231.7	4.6
FY01	Actual	3,866.4	1,816.5	1,275.4	1.4
FY02	Actual	3,933.7	1,876.7	1,317.7	0.6
FY03	Actual	4,070.9	1,912.8	1,343.1	1.0
FY04	Actual	4,159.9	1,955.0	1,372.7	0.3
FY05	Projection	4,257.1	2,000.0	1,404.3	1.8
FY06	Projection	4,469.9	2,100.0	1,474.5	1.8

WINE TAX

Description: (Title 23, Chapter 13, *Idaho Code*)

A tax of \$0.45 per gallon is levied on wine and beer containing more than 4% alcohol sold in Idaho. Of the total, 12% is distributed to the Alcoholism Treatment Fund, 5% to the Idaho Grape Growers and Wine Producers Commission Fund, and the remainder (83%) to the General Fund. Historical rates of the tax and its distribution are listed in the table below.

WINE TAX RATE HISTORY AND DISTRIBUTION MECHANISM

Effective Date	Rate Per Gallon	State of Origin	Distribution Mechanism
Jul-1971	\$0.45	All	100% to General Fund (GF).
Jul-1980	\$0.45	All	\$0.40 to GF; \$0.05 to Alcoholism Treatment Fund (ATF).
Jul-1984	\$0.20	Idaho	\$0.15 to GF; \$0.05 to ATF.
	\$0.45	Non-Idaho	\$0.40 to GF; \$0.05 to ATF.
Jul-1986	\$0.20	Idaho	88% to GF; 12% to ATF.
	\$0.45	Non-Idaho	88% to GF; 12% to ATF.
Jul-1988	\$0.45	All	88% to GF; 12% to ATF.
Jul-1994	\$0.45	All	83% to GF; 12% to ATF; 5% to Idaho Grape Growers & Wine Producers Commission Fund.

Basis of Projection:

The projections of General Fund revenue from this source for FY 2005 and FY 2006 are based on a subjective assessment of recent collection history, the trend toward lower wine consumption per capita, the rising popularity of microbrewery beers, and Idaho population growth.

Historical Data:

WINE TAX
(\$ THOUSANDS)

Year		Gross Collections	Distributions			
			Gen. Fund	Refunds	Alcoholism Treatment Fund	ID Grape Growers & Wine Producers Commission
FY70	Actual	\$0.0	\$0.0			
FY71	Actual	0.0	0.0			
FY72	Actual	394.9	394.9			
FY73	Actual	437.1	437.1			
FY74	Actual	425.5	425.5			
FY75	Actual	457.7	457.7			
FY76	Actual	488.5	470.7	\$17.8		
FY77	Actual	502.3	485.6	16.7		
FY78	Actual	591.6	573.0	18.6		
FY79	Actual	652.5	632.1	20.4		
FY80	Actual	657.6	629.5	28.1		
FY81	Actual	609.0	526.9	14.6	\$67.5	
FY82	Actual	759.1	675.3	0.0	83.8	
FY83	Actual	778.1	692.2	0.0	85.9	
FY84	Actual	837.5	744.7	0.0	92.9	
FY85	Actual	872.4	767.0	6.2	99.2	
FY86	Actual	955.2	844.7	0.9	109.6	
FY87	Actual	985.4	862.1	5.7	117.6	
FY88	Actual	989.1	866.7	4.2	118.2	
FY89	Actual	905.9	788.7	9.6	107.6	
FY90	Actual	880.7	771.3	4.2	105.2	
FY91	Actual	853.2	750.1	0.8	102.3	
FY92	Actual	907.1	753.1	51.3	102.7	
FY93	Actual	856.4	750.5	3.5	102.3	
FY94	Actual	918.4	806.2	2.2	109.9	
FY95	Actual	1,375.5	1,140.5	0.7	165.0	\$69.3
FY96	Actual	1,840.4	1,524.1	4.2	220.3	91.8
FY97	Actual	2,005.4	1,663.7	1.0	240.5	100.2
FY98	Actual	2,170.7	1,800.8	1.0	260.4	108.5
FY99	Actual	2,294.1	1,904.0	0.2	275.3	114.7
FY00	Actual	2,375.4	1,963.1	10.2	283.8	118.3
FY01	Actual	2,295.5	1,898.2	8.5	274.4	114.3
FY02	Actual	2,300.8	1,884.8	30.0	272.5	113.5
FY03	Actual	2,372.7	1,969.0	0.4	284.7	118.6
FY04	Actual	2,576.9	2,138.0	1.0	309.1	128.8
FY05	Projection	2,776.5	2,300.0	5.5	332.5	138.6
FY06	Projection	2,836.8	2,350.0	5.5	339.8	141.6

LIQUOR SURCHARGE

Description: (Title 23, Chapters 2 and 4, *Idaho Code*)

Gross revenue is derived from liquor sold by the State Liquor Dispensary. Two percent of gross liquor revenue is dedicated to the Drug Court and Family Court Services Fund. Idaho Law also provides for the following annual transfers from the Liquor Dispensary's net profits (gross revenue less operating costs): \$4.945 million to the General Fund, \$1.2 million to the Alcoholism Treatment Fund, \$0.3 million to the Community College Fund, \$1.2 million to the Public School Income Fund, and \$0.65 million to the Cooperative Welfare Fund. The remaining balance after these transfers is distributed 40% to counties and 60% to cities.

Historical Data:

LIQUOR SURCHARGE

(\$ THOUSANDS)

Year		Gross Distribu.	Distributions								Cities & Counties
			General Fund	Alcohol Treat. Fund	Community College Fund	Coop. Welfare Fund	Public School Fund	Budget Reserve Fund	Permanent Building Fund	Drug Court & Family Court Services Fund	
FY70	Actual	\$7,116.0	\$1,910.4								
FY71	Actual	8,228.1	2,005.5								
FY72	Actual	8,686.9	2,401.0								
FY73	Actual	10,497.1	2,814.7								
FY74	Actual	10,739.6	2,961.7								
FY75	Actual	9,445.4	2,517.4								
FY76	Actual	11,371.8	2,786.1								
FY77	Actual	10,569.5	2,883.4								
FY78	Actual	11,241.4	3,192.7								
FY79	Actual	12,138.3	3,369.9								
FY80	Actual	13,490.0	3,529.6								
FY81	Actual	14,378.7	3,741.8								
FY82	Actual	12,914.8	3,948.1								
FY83	Actual	15,487.2	3,700.0								
FY84	Actual	15,170.2	3,820.0								
FY85	Actual	12,780.1	4,945.0	\$1,200.0	\$300.0	\$650.0	\$1,200.0				\$4,485.1
FY86	Actual	12,294.5	4,945.0	1,200.0	300.0	650.0	1,200.0				3,999.5
FY87	Actual	12,294.8	4,945.0	1,200.0	300.0	650.0	1,200.0				3,999.8
FY88	Actual	10,795.0	4,945.0	1,200.0	300.0	650.0	1,200.0				2,500.0
FY89	Actual	11,377.9	4,945.0	1,200.0	300.0	650.0	1,200.0				3,082.9
FY90	Actual	12,425.0	4,945.0	1,200.0	300.0	650.0	1,200.0				4,130.0
FY91	Actual	12,268.3	4,945.0	1,200.0	300.0	650.0	1,200.0				3,973.3
FY92	Actual	12,999.1	4,945.0	1,200.0	300.0	650.0	1,200.0				4,704.1
FY93	Actual	12,802.8	4,945.0	1,200.0	300.0	650.0	1,200.0				4,507.8
FY94	Actual	26,149.3	4,945.0	1,200.0	300.0	650.0	1,200.0	\$6,255.8			11,178.5
FY95	Actual	18,449.3	4,945.0	1,200.0	300.0	650.0	1,200.0	0.0			10,154.3
FY96	Actual	16,578.1	4,945.0	1,200.0	300.0	650.0	1,200.0	0.0			8,283.1
FY97	Actual	17,417.3	4,945.0	1,200.0	300.0	650.0	1,200.0	0.0			9,122.3
FY98	Actual	16,605.7	4,945.0	1,200.0	300.0	650.0	1,200.0	0.0			8,310.7
FY99	Actual	18,584.1	4,945.0	1,200.0	300.0	650.0	1,200.0	0.0			10,289.1
FY00	Actual	19,891.7	4,945.0	1,200.0	300.0	650.0	1,200.0	0.0	1,000.0		10,596.7
FY01	Actual	20,293.9	4,945.0	1,200.0	300.0	650.0	1,200.0	0.0	0.0		11,998.9
FY02	Actual	21,100.7	4,945.0	1,200.0	300.0	650.0	1,200.0	0.0	0.0		12,805.7
FY03	Actual	23,163.0	4,945.0	1,200.0	300.0	650.0	1,200.0	0.0	0.0		14,868.0
FY04	Actual	27,775.0	4,945.0	1,200.0	300.0	650.0	1,200.0	0.0	0.0	2,050.0	17,430.0
FY05	Projection	29,390.0	4,945.0	1,200.0	300.0	650.0	1,200.0	0.0	0.0	2,130.0	18,965.0
FY06	Projection	30,070.0	4,945.0	1,200.0	300.0	650.0	1,200.0	0.0	0.0	2,247.0	19,528.0

KILOWATT-HOUR TAX

Description: (Title 63, Chapter 27, *Idaho Code*)

Revenue is derived from a one-half mill (\$0.0005) per kilowatt-hour tax on hydro-generated electricity in Idaho. Power used by industrial consumers and for irrigation is exempt from this tax. All collections accrue to the General Fund. This tax has been levied since July 1, 1931.

Basis of Projection:

Kilowatt-hour tax receipts for FY 2005 and FY 2006 are based on an assessment of recent collection history in comparison to river flows, water availability, and changes in power generation capacity.

Historical Data:

KILOWATT-HOUR TAX

(\$ THOUSANDS)

		Gross Collections	Distributions	
			Refunds	Gen. Fund
Year				
FY70	Actual	\$403.3		\$403.3
FY71	Actual	575.0		575.0
FY72	Actual	550.3		550.3
FY73	Actual	826.1		826.1
FY74	Actual	592.8		592.8
FY75	Actual	408.1		408.1
FY76	Actual	1,255.7	\$88.4	1,167.3
FY77	Actual	597.1	0.1	597.0
FY78	Actual	510.4	0.0	510.4
FY79	Actual	1,651.8	0.0	1,651.8
FY80	Actual	1,404.9	0.0	1,404.9
FY81	Actual	1,607.5	0.0	1,607.5
FY82	Actual	1,755.6	0.0	1,755.6
FY83	Actual	2,176.9	0.0	2,176.9
FY84	Actual	2,412.7	0.0	2,412.7
FY85	Actual	2,270.6	0.0	2,270.6
FY86	Actual	2,100.9	0.0	2,100.9
FY87	Actual	1,819.2	0.0	1,819.2
FY88	Actual	1,487.0	0.0	1,487.0
FY89	Actual	1,593.6	0.0	1,593.6
FY90	Actual	1,677.0	0.0	1,677.0
FY91	Actual	1,783.2	0.0	1,783.2
FY92	Actual	1,615.8	5.3	1,610.5
FY93	Actual	1,478.7	29.4	1,449.3
FY94	Actual	2,125.0	37.0	2,088.0
FY95	Actual	1,686.5	0.0	1,686.5
FY96	Actual	2,947.0	57.1	2,889.9
FY97	Actual	2,973.6	0.0	2,973.6
FY98	Actual	3,239.9	0.0	3,239.9
FY99	Actual	2,885.7	0.0	2,885.7
FY00	Actual	2,800.4	35.0	2,765.4
FY01	Actual	1,796.3	0.0	1,796.3
FY02	Actual	1,794.7	0.0	1,794.7
FY03	Actual	1,803.7	6.7	1,797.0
FY04	Actual	1,827.0	0.0	1,827.0
FY05	Projection	1,800.0	0.0	1,800.0
FY06	Projection	1,800.0	0.0	1,800.0

MINE LICENSE TAX

Description: (Title 47, Chapter 12, *Idaho Code*)

Revenue is derived from a 1% "profit" tax on Idaho mining operations. Sixty-six percent of the collections accrue to the General Fund and the remainder (34%) goes to the Abandoned Mine Reclamation Fund. This tax has been levied since 1935. It was initially set at 3%. It was lowered to 2% in 1972 and again to 1% in 2002. The sharp General Fund increase in FY 1999, and the sharp refund increase in FY 2000 are due to a large payment (\$1.25 million) that was made under protest in FY 1999 then refunded in FY 2000.

Basis of Projection:

The projections of General Fund revenue from this source for FY 2005 and FY 2006 are based on a subjective assessment of recent collections history, the current and future levels of employment in mining, and relative mineral prices.

Historical Data:

MINE LICENSE TAX

(\$ THOUSANDS)

		Gross Collections	Distributions		
			Refunds	Abandoned Mine Reclamation Fund	Gen. Fund
Year					
FY70	Actual	\$264.1			\$264.1
FY71	Actual	268.2			268.2
FY72	Actual	152.9			152.9
FY73	Actual	73.9			73.9
FY74	Actual	192.8			192.8
FY75	Actual	482.0			482.0
FY76	Actual	413.6	\$8.1		405.5
FY77	Actual	203.2	0.4		202.8
FY78	Actual	273.5	4.3		269.2
FY79	Actual	552.3	1.4		551.0
FY80	Actual	1,905.9	0.4		1,905.5
FY81	Actual	2,145.2	27.6		2,117.6
FY82	Actual	2,449.4	4.7		2,444.7
FY83	Actual	687.6	14.3		673.3
FY84	Actual	1,106.2	0.9		1,105.3
FY85	Actual	676.1	90.9		585.2
FY86	Actual	380.6	12.0		368.7
FY87	Actual	283.5	0.3		283.2
FY88	Actual	570.8	0.0		570.8
FY89	Actual	215.8	2.6		213.2
FY90	Actual	278.0	25.0		253.0
FY91	Actual	471.8	1.0		470.9
FY92	Actual	588.7	3.1		585.7
FY93	Actual	441.7	331.8		109.9
FY94	Actual	487.6	14.4		473.2
FY95	Actual	291.0	1.2		289.9
FY96	Actual	800.8	0.0		800.8
FY97	Actual	764.7	101.4		663.4
FY98	Actual	1,101.3	140.8		960.5
FY99	Actual	2,241.0	258.1		1,982.9
FY00	Actual	1,038.3	1,344.4	353.0	-659.1
FY01	Actual	245.3	64.5	61.5	119.3
FY02	Actual	1,236.8	0.3	420.4	816.0
FY03	Actual	107.2	53.1	18.4	35.7
FY04	Actual	115.3	6.3	37.0	71.9
FY05	Projection	65.5	20.0	15.5	30.0
FY06	Projection	75.8	0.0	25.8	50.0

INTEREST EARNINGS

Description: (Title 67, Chapter 12, *Idaho Code*)

State Treasurer's income is derived from interest on investments of idle state funds. Investments are made in time certificates of deposit, U.S. Treasury bills, and repurchase agreements. The yield from these investments is related to short-term interest rates, coupled with the amount of fund balances available for the Treasurer to invest. All net interest earnings, except those derived from the trust and agency funds, accrue to the General Fund. Beginning in FY 2000, all interest earned on the Permanent Building Fund balance is retained by that fund instead of being paid to the General Fund. In addition, beginning in FY 2000, the Treasurer is allowed to invest in certain corporate financial instruments and United States Small Business Administration Loans.

For historical data see the "Miscellaneous Revenues" table.

Basis of Projection:

The projections of General Fund revenue from this source for FY 2005 and FY 2006 are based on an assessment of the State Treasurer's fund balances, forecasts of interest rates, and agency expectations. The FY 2005 projection includes approximately \$2.1 million of earnings by the Treasurer from the issuance of a tax anticipation note. The FY 2006 projection does not include tax anticipation note earnings.

COURT FEES AND FINES

Description: (Sections 1-402 and 19-4705, *Idaho Code*)

Revenues are derived from court fees and from 9% of all fines and forfeitures collected pursuant to the judgment of any court of the state. In the case of Fish and Game law violations, 2.5% goes to the General Fund.

For historical data see the "Miscellaneous Revenues" table.

Basis of Projection:

The projections of General Fund revenue from this source for FY 2005 and FY 2006 are based on an assessment of recent collection history, fee changes, and Idaho population growth.

INSURANCE PREMIUM TAX

Description: (Title 41, Chapters 4, 34, and 39, *Idaho Code*)

Idaho's insurance premium tax is applied at a rate of 2.75% of net direct insurance premiums written in the state, except for title insurance, which is taxed at the rate of 1.5%. Property and casualty insurers with 25% or more of their total assets and life insurers with 25% or more of their total life reserves invested in qualifying Idaho investments may qualify for a reduced tax rate of 1.4%.

In 2004 legislation was passed to phase in a single insurance premium tax rate of 1.5% by calendar 2010 for net direct insurance premiums written in the state. The 2.75% insurance premium tax rate reduces to 1.5% points over the six-year period beginning with calendar year 2005. Specifically, the insurance premium tax is 2.5% in calendar 2005, 2.3% in calendar year 2006, 2.1% in calendar year 2007, 1.9% in calendar year 2008, 1.7% in calendar year 2009, and 1.5% in calendar year 2010. This same legislation gradually increases the reduced rate for companies holding Idaho-based assets from 1.4% to 1.5% over the five-year period beginning with calendar year 2006. The reduced rate is 1.4% in calendar year 2005, 1.42% in calendar year 2006, 1.44% in calendar year 2007, 1.46% in calendar year 2008, 1.48% in calendar year 2009, and 1.5% in calendar year 2010. The percent of a company's assets invested in Idaho required for the reduced rate is 25% in calendar year 2005, 20% in calendar year 2006, 15% in calendar year 2007, 10% in calendar year 2008, 5% in calendar year 2009, and 0% in calendar year 2010. The premium tax rate for surplus lines of insurance is 2.75% through calendar year 2006 and 1.5% beginning with calendar year 2007.

Premium taxes are collected on a quarterly prepayment basis based upon a percentage of the previous year's taxes as reported on the company's filed premium tax return. Prepayment percentages are 60% in June, 20% in September, and 15% in December, with the balance due with the filing in March. The fire insurance premium tax collections are dedicated to the Firemen's Retirement Fund.

The Department of Insurance collects a variety of filing and license fees. These revenues are dedicated to the Insurance Administration Fund to fund operations of the Department of Insurance. At the beginning of each succeeding fiscal year, any balance in the Insurance Administration Fund exceeding the current year appropriation by 25% is transferred to the General Fund.

For historical data see the "Miscellaneous Revenues" table.

Basis of Projection:

The projections of General Fund revenue from this source for FY 2005 and FY 2006 are based on forecasts of insurance premium growth, trends in insurance rates and coverage, agency records of insurers qualifying for the lower rate, and company insolvencies that result in credits taken for guaranty association assessments. These variables and parameters are then run through a simulation model of the cash-flow process to capture the effects on prepayment, filing reconciliation collections, and refunds.

ALCOHOLIC BEVERAGE LICENSES

Description: (Title 23, Chapters 9, 10, and 13, *Idaho Code*)

Revenue is derived from the sale of alcoholic beverage licenses to retailers, wholesalers, and manufacturers at a standard fee.

For historical data see the "Miscellaneous Revenues" table.

Basis of Projection:

The projections of General Fund revenue from this source for FY 2005 and FY 2006 are based on a subjective assessment of recent collection history and Idaho population growth.

UNCLAIMED PROPERTY

Description: (Title 14, Chapter 5, *Idaho Code*)

Unclaimed property from bank accounts, safe deposit boxes, travelers' checks, life insurance policies, utility deposits, and the like accrue to the state after certain holding periods. Beginning in FY 1983, amounts in the Unclaimed Property Fund exceeding \$100,000 were transferred to the General Fund. Prior to that time, the excess was transferred to the Permanent Building Fund. Beginning in FY 1995, the Tax Commission transferred amounts in the Unclaimed Property Fund exceeding \$250,000 to the General Fund. The holding period before most types of financial properties are considered abandoned has been reduced from seven years to five years.

For historical data see the "Miscellaneous Revenues" table.

Basis of Projection:

Projections of unclaimed property are based on a subjective assessment of recent collection history.

UCC FILINGS

Description: (Sections 30-1-122, 53-262, and 67-910, *Idaho Code*)

The principal source of revenue from the Secretary of State is derived from the filings of articles of incorporation. The Secretary of State also collects many other miscellaneous fees, such as Uniform Commercial Code (UCC) filing fees and notary fees. From July 1, 1996 to June 30, 2000, most of the revenue collected accrued to the Commercial Affairs Administrative Fund. Since the beginning of fiscal year 2001, these monies accrue to the General Fund.

For historical data see the "Miscellaneous Revenues" table.

Basis of Projection:

Projections of revenue from this source are based on a subjective assessment of recent collection history, recent tax law changes, and agency expectations.

ESTATE AND TRANSFER TAX

Description: (Title 14, Chapter 4, *Idaho Code*)

The Idaho Estate and Transfer Tax is a "Pick Up" tax. The federal code allows a decedent's estate to take a credit against state estate taxes paid, up to certain limits, based on the size of the estate. The amount of Idaho Estate and Transfer Tax due is equal to this credit. The Federal Economic Growth and Tax Relief Reconciliation Act of 2001 phases out this credit in equal steps over the four-year period beginning with 2002. As a result, the amount of Idaho Estate and Inheritance Tax collected will eventually disappear. Ten percent of the amount collected is distributed to the county of probate and the remainder, net of refunds, accrues to the state's General Fund.

For historical data see the "Miscellaneous Revenues" table.

Basis of Projection:

The FY 2005 and FY 2006 General Fund revenue projection for this source is based on a trend analysis of past collections, the impacts of the Federal Economic Growth and Tax Relief and Reconciliation Act of 2001, and judgment.

OTHER DEPARTMENTS AND TRANSFERS

The primary revenue sources for this miscellaneous category are receipts from the Department of Finance, Department of Lands, Department of Administration, and Department of Agriculture. Other agencies provide lesser amounts on a sporadic basis. Environmental violation penalties assessed by the Departmenton of Environmental Quality are an irregular income source. The annual transfer to the General Fund from the Federal Power Act (through the State Treasurer) is also included. However, the unpredictable nature of other items included in this source is evidenced by the collection history.

For historical data see the "Miscellaneous Revenues" table.

Basis of Projection:

The projections of miscellaneous General Fund revenues for FY 2005 and FY 2006 are based on a subjective assessment of recent collection history and expected transfers.

MISCELLANEOUS REVENUES

(\$THOUSANDS)

		Distributions to General Fund									
		Estate Tax	Interest Earnings	Court Fees & Fines	Insurance Premium Tax	Alcoholic Beverage Licenses	Un-Claimed Property	UCC Filings	Lands	One-Time Transfers	Other Depts. and Transfers
FY70	Actual	0.0	\$3,216.1	\$1.8	\$4,831.5	\$444.2	\$0.0	\$873.6	\$15.3	\$955.5	\$502.6
FY71	Actual	0.0	3,151.1	310.5	5,345.7	477.3	0.0	683.7	22.9	0.0	663.0
FY72	Actual	0.0	2,172.5	868.1	6,024.1	526.0	0.0	834.6	32.7	1,000.0	757.3
FY73	Actual	0.0	3,055.8	1,056.4	6,664.1	530.6	0.0	1,192.1	100.3	1,500.0	423.2
FY74	Actual	0.0	5,895.8	1,188.1	7,471.6	555.0	0.0	935.2	40.6	0.0	881.8
FY75	Actual	0.0	7,790.3	1,141.5	7,945.6	573.4	0.0	1,130.2	92.4	0.0	540.1
FY76	Actual	0.0	7,013.4	1,242.0	8,915.8	593.0	0.0	1,051.3	103.9	1,000.0	499.1
FY77	Actual	0.0	5,529.3	1,268.1	10,693.5	624.7	0.0	986.3	100.6	0.0	525.6
FY78	Actual	0.0	5,465.2	1,446.6	12,175.2	654.4	0.0	1,536.3	59.2	0.0	588.7
FY79	Actual	0.0	7,382.4	1,618.6	13,555.0	670.4	0.0	1,181.8	286.1	0.0	559.5
FY80	Actual	0.0	12,946.3	1,894.8	14,894.7	719.6	0.0	1,521.9	136.0	0.0	574.5
FY81	Actual	0.0	10,257.4	1,850.8	14,845.9	918.9	0.0	1,510.4	109.4	0.0	792.7
FY82	Actual	0.0	12,282.6	2,036.1	15,442.0	911.5	0.0	512.1	181.7	1,282.7	643.6
FY83	Actual	0.0	8,663.9	2,109.6	22,345.0	939.6	175.3	538.9	165.9	6,115.0	715.1
FY84	Actual	0.0	12,227.9	2,154.9	16,730.0	932.2	597.0	559.6	167.8	435.7	874.8
FY85	Actual	0.0	10,931.1	2,355.3	18,329.8	1,033.8	1,304.9	571.6	174.9	4,097.3	905.3
FY86	Actual	0.0	9,549.6	2,544.1	20,867.5	1,052.5	906.7	624.3	161.3	5,757.5	838.4
FY87	Actual	0.0	7,615.7	2,800.7	21,257.1	1,059.9	866.3	953.8	168.2	9,337.0	987.6
FY88	Actual	0.0	10,010.0	2,860.1	31,182.3	1,035.8	997.7	1,083.0	123.6	942.5	1,041.9
FY89	Actual	0.0	16,178.4	3,135.9	26,217.5	1,033.9	744.9	1,010.6	131.7	2,300.0	1,112.8
FY90	Actual	0.0	17,552.6	3,426.1	25,209.2	1,081.5	1,155.7	1,073.4	158.9	1,000.0	1,270.7
FY91	Actual	0.0	19,387.7	3,331.7	28,643.7	994.5	1,145.4	1,165.6	192.4	325.0	1,922.7
FY92	Actual	0.0	11,810.0	3,390.7	31,944.9	1,010.2	1,353.3	1,396.1	210.7	513.9	1,856.0
FY93	Actual	0.0	10,540.0	3,210.0	28,810.0	960.0	1,335.5	907.6	229.8	0.0	682.6
FY94	Actual	0.0	10,611.2	3,721.9	33,193.5	1,039.0	1,707.9	784.0	220.2	3,420.0	1,264.2
FY95	Actual	0.0	15,000.0	3,894.0	34,934.6	1,072.3	2,089.2	854.5	243.6	0.0	3,391.6
FY96	Actual	0.0	18,541.4	4,244.8	36,126.4	1,047.9	1,387.1	941.2	238.3	145.0	3,182.8
FY97	Actual	0.0	18,243.0	4,707.9	40,262.5	1,140.9	829.4	26.2	240.3	0.0	3,141.2
FY98	Actual	0.0	17,930.0	5,016.3	42,846.5	1,151.6	1,168.0	33.0	265.2	0.0	3,403.5
FY99	Actual	0.0	18,686.7	5,131.7	45,465.2	1,158.1	1,588.9	11.6	317.0	428.0	4,914.7
FY00	Actual	0.0	21,559.7	5,305.7	46,431.9	1,300.2	2,308.2	22.3	703.1	574.8	12,149.7
FY01	Actual	35,806.8	22,303.6	5,493.5	55,880.8	1,224.4	5,809.6	2,007.0	338.3	8,075.0	12,294.8
FY02	Actual	7,589.0	11,334.6	5,188.3	55,370.9	1,363.8	880.7	2,031.8	347.9	15,416.4	8,005.0
FY03	Actual	13,649.2	2,982.2	5,287.8	59,488.8	1,394.2	3,760.3	2,143.5	355.8	14,461.3	5,668.4
FY04	Actual	4,430.6	4,971.3	4,978.5	62,766.6	1,611.5	3,686.5	2,394.9	331.0	71,912.9	2,330.0
FY05	Projection	3,650.0	5,800.0	4,900.0	58,720.0	1,640.0	2,500.0	2,500.0	330.0	1,648.8	22,428.2
FY06	Projection	0.0	4,500.0	4,980.0	58,774.0	1,660.0	2,500.0	2,500.0	330.0	0.0	18,858.2

1. Includes a one-time transfer of \$9,337,000 from the Water Pollution Control Fund.
2. Includes a one-time reversion of \$204,400 from the University of Idaho.
3. Includes offsetting transfers of \$2.0 million from and to the Water Pollution Control Fund; and \$300,000 borrowed and repaid by the Lottery Commission.
4. Includes off-setting transfer of \$1,000,000 borrowed and repaid by the Lottery Commission.
5. Includes on-time transfer of \$125,000 from the Department of Insurance and \$200,000 from the Parks Land Trust.
6. Includes \$513,894 in one-time transfer from State Treasurer's interagency billing and receipts fund in FY 1992.
7. Transfers of: \$3,000,000 from Budget Reserve Fund; \$420,000 from Liquor Fund; and approximately \$350,000 from Department of Finance.
8. Includes a \$1,858,000 transfer from the Department of Finance.
9. Includes a \$1,517,000 transfer from the Department of Finance and a \$145,000 transfer from the Secretary of State.
10. Includes a \$1,117,000 transfer from the Department of Finance.
11. Includes a \$1,567,000 transfer from the Department of Finance.
12. Includes a \$1,245,700 transfer from the Department of Finance, a \$428,000 transfer from the Secretary of State, a \$1,102,395 recovery of cost allocation expenses.
13. Includes a \$1,694,300 transfer from the Department of Finance, a \$574,800 transfer from the Secretary of State, a \$1,203,400 recovery of cost allocation expenses.
14. Includes a \$2,241,970 transfer from the Department of Finance, a \$2,575,000 transfer from the Secretary of State, a \$1,407,407 recovery of cost allocation expenses, a \$5,000,000 transfer from the Department of Environmental Quality, and a \$500,000 transfer from the Department of Lands.
15. Includes a \$2,363,362 transfer from the Department of Finance, a \$1,150,900 recovery of cost allocation expenses, a \$1,046,600 transfer from the Department of Environmental Quality, and a \$7,049,200 transfer for Attorney General fees.
16. Includes a \$1,150,000 recovery of cost allocation expenses and a \$7,300,000 transfer for Attorney General fees.
17. Includes one-time \$50 million transfer from federal government for budget relief and \$17.1 million from Division of Financial Management for recovery of cost allocation expenses.
18. Includes \$13.8 million from Division of Financial Management for recovery of cost allocation expenses.

Idaho's Tax Structure

Exemptions, Credits, Exclusions, and Deductions

INTRODUCTION

This report is a comprehensive guide to the structure of Idaho's primary General Fund revenue sources. It provides a detailed examination of the various departures from the broadly defined *base* of the income and sales taxes. These two taxes supply well over 90% of the revenue that goes to the General Fund.

The everyday vernacular refers to these departures from the tax base as *tax breaks*. An analogous term used by fiscal analysts is *tax expenditures*. The most common forms they take in the codification of taxes are exemptions, credits, exclusions, and deductions. The end result is always the same: a tax that is defined on the basis of a broad economic concept (income, consumption, wealth, etc.) is not applied uniformly against the broad base of the tax.

The following pages provide both an inventory and an explanation of Idaho's sales and income tax expenditures. The goal is to facilitate greater understanding of these important elements of Idaho's overall fiscal structure. It is not an attempt to judge the merits of any particular tax expenditure.

The definition of a tax expenditure (for the purpose of this report) is *any provision of Idaho law that excludes some portion of the tax base on a selective basis*. Two illustrative examples are the sales tax exemption for prescription drugs and the income tax exclusion for interest earned on certain government-issued securities. In the first case a specific type of consumption (prescription drugs) is excused from the sales and use tax. In the second case a specific source of income (interest from government-issued securities) is excused from the income tax.

Limiting the definition of tax expenditures to Idaho tax provisions is arbitrary and is primarily done to limit the scope of this publication. Indeed, many federal income tax provisions have the effect of granting large tax expenditures within Idaho. The mortgage interest deduction is a good example. Although nothing technically prevents Idaho from treating mortgage interest different than the federal tax law, the practical ramifications prevent Idaho from making large deviations from federal tax law. Consequently, this report ignores tax expenditures that originate in federal tax law. It does, however, look at Idaho departures from the federal tax structure and treats them as Idaho-specific tax expenditures.

Some apparent tax breaks are not really tax expenditures, because their impacts lie outside of the basic definition of the tax base. The sales tax "exemption" for goods purchased for resale is one such case. This is because the sales tax is intended to apply to retail sales, and the "exemption" for goods purchased for resale is the statutory mechanism used to differentiate between retail and wholesale trade. The income tax rate brackets are another example of a tax policy that impacts the amount of revenue produced from the fundamental tax base, but are not considered a selective "exemption" for purposes of this report. That's because all income that falls into a particular bracket is taxed at that bracket's rate, regardless of the overall income (or any other characteristic) of the taxpayer.

This report includes estimates of the cost of each tax expenditure. This is an estimate of how much tax payment is being avoided by the beneficiaries of the tax expenditure. It is not an estimate of the revenue that would be raised by eliminating the tax expenditure. Several additional factors need to be considered when producing a revenue estimate associated with any particular tax law change.

In many cases, especially those involving substantial structural changes, tax law changes could reasonably be expected to change the economic behavior of taxpayers. The fiscal estimates included in this report are based on current economic behavior, meaning they reflect an environment that includes the effect of the tax expenditure. It should be noted that in many cases even the fiscal estimates based on the actual tax structure are difficult to produce. Attempting to factor in behavioral adjustments can add a substantial amount of complexity to the fiscal analysis.

Another factor that is not reflected in these fiscal estimates is the amount of tax gap. The tax gap is the difference between the theoretical amount of revenue associated with eliminating a particular tax expenditure and the actual revenue that would be realized. The probable size of the “tax gap” is impacted by a number of variables, including the manner in which a tax exemption is removed and the amount of resources that are allocated to compliance and collection efforts. Clearly these are variables that are “unknowable” prior to any specific proposal for law changes.

Tax expenditures are placed in the law for a variety of reasons. The primary reasons are to encourage a particular behavior on the part of taxpayers, to provide fiscal relief to particular taxpayers, or to simplify the administration of the tax laws.

In many cases, tax expenditures have an alternative, appropriation-based method for accomplishing the policy objective behind the tax expenditure. Often, the appropriation-based alternative will have significant differences (relative to the tax expenditure) in terms of overhead cost and public policy ramifications.

Overhead cost comparisons associated with tax expenditures vs. appropriations depend on the specific circumstances of the particular tax expenditure/appropriation alternative being considered, and the “value” of both is difficult to examine.

This is particularly the case with sales and income tax expenditures that are made in the context of confidential tax returns. This means that the beneficiaries are only known to the tax authorities. The secrecy of sales and income tax information is protected under felony penalty provisions. The confidentiality associated with tax expenditures seriously inhibits close scrutiny, and makes it difficult or impossible to establish the “value” (as opposed to the cost) of the tax expenditure.

Tax expenditures “cost” the public in the form of lost revenue that could otherwise be used to fund appropriations or reduce tax rates. However, the estimates of the amount of lost revenue contained in this report do not take into consideration the overhead that would be needed to collect the lost revenue. That overhead can vary from very large, as in the case of tax expenditures that are for the purpose of simplifying tax administration, to negative, as in the case of a tax expenditure that in itself increases the administrative costs associated with the particular tax.

INDIVIDUAL AND CORPORATE INCOME TAX

The Idaho income tax is a tax levied on individuals and corporations based on their income during a 12-month tax period. In the case of businesses (proprietorships, partnerships, and corporations) the concept of income is not gross receipts, but rather is most closely associated with the economic concept of profit.

The rate of Idaho's income tax is a flat 7.6% on corporate income and a maximum of 7.8% on individual income. Rates on individuals vary from a low of 1.6% to a top rate of 7.8%. Idaho's individual income tax brackets are adjusted each year for inflation.

The tax expenditures granted under the income tax can be classified into two principle categories: exemptions based on the source of income (exclusions); and exemptions based on the use of income (deductions and credits). Source exemptions include interest from government securities, capital gains, and social security payments. Use exemptions include donations to educational institutions and purchases of equipment used in business enterprises. Notable features of the income tax structure that are within Idaho's policy discretion but are not considered tax expenditures include: the rate brackets, personal exemptions, and standard deductions. These features of the tax structure have the effect of reducing revenues, but they are not selective with regard to whom they apply.

A special note concerning tax expenditure definitions is relevant in the case of the income tax. Since the foundation of the Idaho income tax is federal adjusted gross income, there are a number of federal tax expenditures that are adopted in Idaho by default. These federal tax expenditures could technically be considered Idaho tax expenditures, since Idaho adopts them by law. However, this report takes the approach that federal tax expenditures related to the definition of taxable income are **not** Idaho tax expenditures. Thus, the federal tax expenditure associated with the mortgage interest deduction is not considered an Idaho tax expenditure. Similarly, Idaho's exclusion of social security income from the income tax base is treated as an Idaho tax expenditure only to the extent that it exceeds the partial federal exclusion for social security income.

The principal Idaho income tax expenditures relating to uses of income are:

- Investment Tax Credit
- Other States Tax Credit
- Elderly Dependent Credit
- Youth and Rehabilitation Credit
- Schools, Libraries, and Museums Credit
- Grocery Credit
- Technological Equipment Deduction
- Long-Term Care Insurance Deduction
- Alternative Energy Device Deduction
- Insulation Deduction
- Workers' Compensation Premium Deduction
- Child Care Deduction
- College Savings Deduction
- Health Insurance Deduction
- Elderly and Development Disability Deduction
- Adoption Expense Deduction

Medical Savings Account Deduction
New Employee Credit
Riparian Land Improvements (Sunsets 2002)
Broadband Investment Credit
County Incentive Investment Credit (only 2000)
Research Activity Credit

The principal Idaho income tax expenditures relating to sources of income are:

Capital Gains Exclusion
Government Interest Exclusion
Social Security Exclusion
Railroad Retirement Exclusion
Retirement Benefit Exclusion
Idaho Lottery Winnings Exclusion
Indian Earnings on Reservation Exclusion
World War II Reparations Exclusion
Marriage Penalty Deduction

SALES AND USE TAX

The Idaho sales tax is a transaction tax levied on the purchase or use of goods and services by consumers, where consumers may be either individuals or businesses. Transactions involving purchases by businesses are included in the sales tax base if the goods or services are consumed by the purchasing business. Transactions involving purchases of goods or services for resale (including components or parts used in manufactured goods) are not considered a part of the sales tax base. The legal incidence of the Idaho sales tax is on the purchaser. Sales taxes are distant relatives of value-added taxes.

The rate of Idaho's sales tax has been 5% since April 1986. A temporary increase to 6% is in effect from May 2003 through June 2005. No partial exemptions exist. That is, nothing is taxed at a rate below 5% (6%) but above 0%.

Consumption, as an economic concept, can be divided into consumption of goods and consumption of services. The purchase of a hotel room is classified as a service, since it is only the right to use the hotel room for a limited time that it is being purchased. Purchase of a tent is classified as a good since the buyer becomes the owner of a tangible item. An interesting characteristic of Idaho's sales tax is that unless specifically exempted, purchase of a tangible good is a taxable event. On the other hand, the purchase of a service is generally not taxable unless the service is specifically included in the list of taxable transactions. Three major service categories that are completely taxable (and therefore are excluded from this compilation of tax expenditures) are "Hotels and Other Lodging Places", "Amusement and Recreation Services", and "Motion Pictures."

The tax expenditures granted under the sales tax can be classified in three principal categories: exemptions based on the *use* of the good or service, exemptions based on the *specific good or service* being purchased, and exemptions based on the *individual or entity* making the purchase or sale.

Principal Idaho sales tax expenditures relating to specific uses are:

- Production Exemption - Equipment
- Production Exemption - Supplies
- Irrigation Equipment and Supplies
- Pollution Control Equipment
- Broadcast Equipment and Supplies
- Publishing Equipment and Supplies
- Commercial Aircraft
- Railroad Rolling Stock and Remanufacturing
- Interstate Trucks
- Out-of-State Contracts
- Trade-in Value
- Sales of Businesses or Business Assets
- Food Stamps/WIC
- Motor Vehicles Used Outside of Idaho
- Common Carrier Purchases and Out-of-State Sales
- Donations of Real Property to Idaho Government

Incidental Sales of Tangible Personal Property
Lodging, Eating, and Drinking Places
School Lunches and Senior Citizen Meals
Drivers Education Automobiles
Ski Lifts and Snow-grooming Equipment
Clean Rooms

Principal Idaho sales tax expenditures relating to specific goods and services are:

Goods Not Taxed

Motor Fuels
Heating Materials
Utility Sales
Used Mobile Homes
Vending Machines and Amusement Devices
Prescriptions and Durable Medical Equipment
Funeral Caskets
Containers
Nonprofit Literature
Official Documents
Precious Metal Bullion
Idaho Commemorative Silver Medallions
New Manufactured Homes or Modular Buildings
Telecommunications Equipment

Services Not Taxed

Construction
Agricultural and Industrial Services
Transportation Services
Information Services
Repairs
Professional Services
Business Services
Personal Services
Health and Medical Services
Social Services
Educational Services
Lottery Tickets and Pari-Mutuel Betting
Media Measurement Services
Miscellaneous Services

Principal Idaho sales tax expenditures relating to specific entities are:

Educational Institution Purchases
Hospital Purchases
Health Entity Purchases

Canal Company Purchases
Forest Protective Association Purchases
Food Bank Purchases
Non-sale Clothier Purchases
Centers for Independent Living
State of Idaho and Local Government Purchases
Ronald McDonald House Rooms
INEEL R&D Purchases
Motor Vehicle Purchases by Family Members
Sales by 4-H and FFA Clubs at Fairs
Sales by Non-Retailers (Yard and Occasional Sales)
Sales by Indian Tribes on Reservations
Sales of Meals by Churches to Members
Sales by Outfitters and Guides
Sales Through Vending Machines
Auto Manufacturer Rebates
Incidental Sales of Churches
Federal Excise Tax Imposed at Retail Level
Federal Constitutional Prohibitions
Federal and State Statutory Prohibitions

Idaho Tax Structure
Fiscal Summary
\$ Thousands

		CY2001	CY2002	CY2003	CY2004	CY2005	CY2006
1.00	Income Tax Expenditures (Calendar Year Basis)						
	Uses of Income Not Taxed						
1.01	Investment Tax Credit	\$22,304	\$30,217	\$22,661	\$25,511	\$27,947	\$29,749
1.02	Other States Tax Credit	\$26,259	\$29,514	\$30,644	\$32,454	\$34,120	\$35,981
1.03	Elderly Dependent Credit	\$415	\$408	\$455	\$462	\$469	\$478
1.04	Youth & Rehab Credit	\$6,090	\$6,467	\$7,164	\$7,629	\$7,875	\$8,120
1.05	Schools & Libraries & Museums Credit	\$2,527	\$3,832	\$3,685	\$3,903	\$4,103	\$4,327
1.06	Grocery Credit	\$23,767	\$23,715	\$23,909	\$24,265	\$24,618	\$24,976
1.07	Recycling Equipment Credit	\$11	\$35	\$11	\$24	\$24	\$24
1.08	Technological Equipment Deduction	\$61	\$42	\$43	\$46	\$48	\$51
1.09	Long-term Care Health Insurance Deduction	\$455	\$460	\$495	\$529	\$567	\$609
1.10	Alternative Energy Devices Deduction	\$231	\$230	\$236	\$250	\$262	\$275
1.11	Insulation Deduction	\$519	\$538	\$553	\$584	\$612	\$644
1.12	Workers' Comp. Premium Deduction	\$400	\$400	\$400	\$400	\$400	\$400
1.13	Child Care Deduction	\$2,935	\$3,012	\$3,034	\$3,042	\$3,063	\$3,081
1.14	College Savings Deduction	\$216	\$754	\$734	\$746	\$758	\$770
1.15	Health Insurance Deduction	\$7,523	\$7,074	\$6,082	\$6,472	\$6,902	\$7,390
1.16	Elderly & Dev. Dis. Deduction	\$9	\$9	\$9	\$9	\$9	\$9
1.17	Adoption Expenses Deduction	\$45	\$57	\$46	\$46	\$46	\$46
1.18	Medical Savings Accounts Deduction	\$1,101	\$1,050	\$1,079	\$1,137	\$1,191	\$1,255
1.19	New Employees Credit	\$89	\$1,210	\$88	\$1,510	\$1,510	\$1,510
1.20	Riparian Land Improvements	\$45	\$45	<i>Sunset</i>	<i>Sunset</i>	<i>Sunset</i>	<i>Sunset</i>
1.20a	Broadband Investment Credit	\$55	\$677	\$1,059	\$1,192	\$1,306	\$1,390
1.20b	County Incentive Investment Tax Credit	\$737	\$570	\$666	<i>Sunset</i>	<i>Sunset</i>	<i>Sunset</i>
1.20c	Research Activity Credit	\$490	\$301	\$417	\$470	\$515	\$1,250
	Sources of Income Not Taxed						
1.21	Capital Gains Exclusion	\$14,092	\$12,567	\$12,923	\$13,660	\$14,335	\$15,109
1.22	Government Interest Exclusion	\$6,255	\$3,543	\$3,485	\$3,680	\$3,785	\$3,900
1.23	Social Security Exclusion	\$21,685	\$21,748	\$22,791	\$24,017	\$25,028	\$27,065
1.24	Railroad Retirement Exclusion						
1.25	Retirement Benefit Exclusion	\$4,008	\$3,850	\$4,031	\$4,259	\$4,453	\$4,823
1.26	Idaho Lottery Winnings Exclusion	\$4,115	\$4,183	\$4,252	\$4,322	\$4,394	\$4,467
1.27	Indian Earnings on Reservation Exclusion	\$381	\$391	\$403	\$426	\$448	\$473
1.28	World War II Reparations Exclusion	\$0	\$0	\$0	\$0	\$0	\$0
1.29	Marriage Penalty Deduction	\$11,970	\$11,862	\$0	\$0	\$0	\$0
		FY2002	FY2003	FY2004	FY2005	FY2006	FY2007
2.00	Sales Tax Expenditures (Fiscal Year Basis)						
	Specific Uses Not Taxed						
2.01	Production Exemption-Equipment	\$55,538	\$54,590	\$60,790	\$67,665	\$72,963	\$77,327
2.02	Production Exemption-Supplies	\$42,042	\$41,324	\$46,018	\$51,222	\$55,233	\$58,537
2.03	Irrigation Equipment & Supplies	\$2,552	\$2,616	\$2,681	\$2,748	\$2,817	\$2,887
2.04	Pollution Control Equipment	\$3,031	\$2,615	\$2,698	\$3,029	\$3,317	\$3,492
2.05	Broadcast Equipment & Supplies	\$1,531	\$1,505	\$1,676	\$1,866	\$2,012	\$2,132
2.06	Publication Equipment & Supplies	\$98	\$96	\$107	\$120	\$129	\$137
2.07	Commercial Aircraft	\$1,575	\$1,575	\$1,575	\$1,575	\$1,575	\$1,575
2.08	Railroad Rolling Stock & Remanufacturing	\$2,125	\$2,125	\$2,125	\$2,125	\$2,125	\$2,125
2.09	Interstate Trucks	\$5,744	\$5,958	\$6,058	\$6,154	\$6,201	\$6,517
2.10	Out-of-State Contracts	\$2,552	\$2,509	\$2,794	\$3,110	\$3,353	\$3,554
2.11	Trade-in Value	\$24,525	\$25,437	\$25,863	\$26,274	\$26,474	\$27,823
2.12	Sales or Lease of Businesses or Business Assets	\$1,211	\$1,191	\$1,326	\$1,476	\$1,591	\$1,687
2.13	Food Stamps/WIC	\$3,669	\$3,819	\$4,105	\$4,336	\$4,447	\$4,565
2.14	Motor Vehicles Used Outside of Idaho	\$13,698	\$14,208	\$14,446	\$14,676	\$14,787	\$15,541
2.15	Common Carrier Purchases & Out-of-State Sales	NA	NA	NA	NA	NA	NA
2.16	Donations of Real Property to Idaho Government	\$3	\$3	\$3	\$3	\$3	\$3
2.17	Incidental Sales of Tangible Personal Property	\$10	\$10	\$10	\$10	\$10	\$10
2.18	Lodging, Eating, & Drinking Places	\$45	\$47	\$50	\$53	\$55	\$57
2.19	School Lunches & Senior Citizen Meals	\$2,169	\$2,222	\$2,306	\$2,387	\$2,449	\$2,516
2.20	Driver Education Automobiles	\$33	\$33	\$32	\$31	\$31	\$32
2.21	Ski Lifts and Snowgrooming Equipment	\$500	\$500	\$500	\$500	\$500	\$500
2.21a	Clean Rooms	\$400	\$400	\$400	\$400	\$400	\$400
	Goods Not Taxed						
2.22	Motor Fuels	\$46,257	\$52,862	\$59,838	\$69,165	\$64,581	\$64,537
2.23	Heating Materials	\$2,420	\$2,763	\$3,159	\$3,882	\$3,517	\$3,154

Idaho Tax Structure
Fiscal Summary
\$ Thousands

		FY2002	FY2003	FY2004	FY2005	FY2006	FY2007
2.24	Utility Sales	\$60,687	\$59,625	\$61,414	\$63,256	\$65,154	\$67,109
2.25	Used Mobile Homes	\$2,300	\$2,300	\$2,300	\$2,300	\$2,300	\$2,300
2.26	Vending Machines & Amusement Devices	\$0	\$0	\$0	\$0	\$0	\$0
2.27	Prescriptions & Durable Medical Equipment	\$13,403	\$14,503	\$15,526	\$16,634	\$17,835	\$19,089
2.28	Funeral Caskets	\$789	\$833	\$889	\$949	\$977	\$1,006
2.29	Containers	\$21	\$22	\$23	\$25	\$25	\$26
2.30	Nonprofit Literature	\$93	\$94	\$96	\$97	\$99	\$100
2.31	Official Documents	\$46	\$47	\$47	\$48	\$49	\$50
2.32	Precious Metal Bullion	\$465	\$465	\$465	\$465	\$465	\$465
2.32a	Idaho Commemorative Silver Medallions	\$0	\$0	\$2	\$2	\$2	\$2
2.33	New Manufactured Homes or Modular Buildings	\$1,474	\$1,497	\$1,531	\$1,581	\$1,640	\$1,705
2.34	Telecommunications Equipment	\$548	\$602	\$663	\$729	\$802	\$882
Services Not Taxed							
2.35	Construction	\$79,806	\$83,431	\$93,175	\$102,322	\$101,807	\$101,209
2.36	Agricultural & Industrial Services	\$1,511	\$1,531	\$1,555	\$1,584	\$1,616	\$1,650
2.37	Transportation Services	\$14,463	\$14,535	\$14,910	\$15,435	\$16,062	\$16,675
2.38	Information Services	\$45,578	\$46,908	\$48,187	\$49,505	\$50,915	\$52,356
2.39	Repairs	\$29,132	\$30,770	\$32,343	\$34,091	\$36,002	\$37,964
2.40	Professional Services	\$140,499	\$148,395	\$155,982	\$164,412	\$173,627	\$183,091
2.41	Business Services	\$57,589	\$60,825	\$63,935	\$67,390	\$71,167	\$75,047
2.42	Personal Services	\$5,581	\$5,895	\$6,197	\$6,531	\$6,897	\$7,273
2.43	Health & Medical Services	\$208,807	\$225,942	\$241,868	\$259,133	\$277,848	\$297,384
2.44	Social Services	\$29,898	\$32,352	\$34,632	\$37,105	\$39,784	\$42,582
2.45	Educational Services	\$12,840	\$13,562	\$14,255	\$15,026	\$15,868	\$16,733
2.46	Lottery Tickets & Pari-Mutuel Betting	\$6,373	\$6,576	\$6,787	\$6,787	\$6,787	\$6,787
2.47	Media Measurement Services	\$44	\$45	\$46	\$48	\$49	\$51
2.48	Miscellaneous Services	\$1,260	\$1,331	\$1,399	\$1,475	\$1,557	\$1,642
Specific Entities Not Taxed							
2.49	Educational Institution Purchases	\$4,942	\$5,170	\$5,292	\$5,723	\$5,838	\$5,930
2.50	Hospital Purchases	\$12,021	\$13,007	\$13,924	\$14,918	\$15,995	\$17,120
2.51	Health Entity Purchases	\$221	\$236	\$249	\$262	\$274	\$287
2.52	Canal Company Purchases	\$681	\$694	\$707	\$722	\$734	\$747
2.53	Forest Protective Associations Purchases	\$30	\$31	\$31	\$32	\$32	\$33
2.54	Food Bank Purchases	\$160	\$168	\$177	\$187	\$195	\$204
2.55	Nonsale Clothiers Purchases	\$1	\$1	\$1	\$1	\$1	\$1
2.56	Centers for Independent Living	\$3	\$3	\$4	\$4	\$4	\$4
2.57	Idaho State & Local Government Purchases	\$17,146	\$18,357	\$18,400	\$19,658	\$20,292	\$21,055
2.58	Ronald McDonald House Rooms	\$1	\$1	\$1	\$1	\$1	\$1
2.59	INEEL R&D Purchases	\$3,117	\$2,990	\$3,273	\$3,652	\$3,953	\$4,196
2.60	Motor Vehicle Purchases by Family Members	\$1,607	\$1,667	\$1,695	\$1,722	\$1,735	\$1,824
2.61	Sales by 4H & FFA Clubs at Fairs	\$23	\$23	\$23	\$23	\$23	\$23
2.62	Sales by Non-Retailers (Yard & Occasional Sales)	\$1,824	\$1,914	\$2,022	\$2,132	\$2,226	\$2,333
2.63	Sales by Indian Tribes on Reservations	\$2,874	\$2,997	\$3,213	\$3,418	\$3,517	\$3,649
2.64	Sales of Meals by Churches to Members	\$8	\$8	\$8	\$9	\$9	\$9
2.65	Sales by Outfitters & Guides	\$13	\$13	\$13	\$13	\$13	\$13
2.66	Sales through Vending Machines	\$1,449	\$1,508	\$1,621	\$1,713	\$1,757	\$1,803
2.67	Auto Manufacturer Rebates	\$530	\$550	\$559	\$568	\$572	\$602
2.68	Incidental Sales of Churches	\$457	\$479	\$507	\$534	\$557	\$584
2.69	Federal Excise Tax Imposed at Retail Level	NA	NA	NA	NA	NA	NA
2.70	Federal Constitution Prohibitions	NA	NA	NA	NA	NA	NA
2.71	Other Federal & State Statutory Prohibitions	NA	NA	NA	NA	NA	NA

TAX STRUCTURE DETAIL

Specific Idaho tax expenditures are detailed in the sections below. Each section contains the expenditure's *Idaho Code* reference, a brief description of its features, and its significant legislative and judicial history.

INDIVIDUAL AND CORPORATE INCOME TAX

Income tax expenditures fall into one of three categories: exclusions, deductions, or credits. Exclusions are sources of income that are wholly or partially exempt from taxation. Deductions are uses of income (either actual spending or proxies for actual spending) that are wholly or partially exempt from taxation. Credits are deductions from the tax itself that are expressed either as a percentage of some qualifying amount or as a lump sum. Credits may be further divided into those that are refundable, meaning that they can exceed the taxpayer's tax liability and actually lead to a refund, and those that are non-refundable, meaning that they are only usable if there is a tax liability to offset.

In general, deductions and exclusions must be used in the year they are incurred, with the exception of business net operating loss (NOL) carry forwards. Credits may be carried forward for limited time periods in certain cases where specifically authorized in the law.

One notable feature that applies to all income tax expenditures is their interaction with federal income tax. Unlike the sales tax, the Idaho income tax is deductible from federal income taxes. This applies to all corporate taxpayers and to individual taxpayers who itemize their deductions. This means that the "benefit" of an Idaho income tax expenditure is split between Idaho taxpayers and the federal treasury. The terms of the split depend on the marginal federal tax rate of the taxpayer. For a taxpayer in the 35% federal bracket, the benefit of each dollar of Idaho tax expenditure is split \$.65 to the taxpayer, \$.35 to the federal treasury. This feature of the income tax is particularly significant in assessing the cost effectiveness of an Idaho tax expenditure as an incentive for some particular behavior.

1.01 Investment Tax Credit *Idaho Code 63-3029B*

Description: Idaho's investment tax credit (ITC) is provided to businesses (proprietorships, partnerships, and corporations) that purchase qualifying property for use in their business. The credit amount is 3% of the qualified investment in depreciable property and is not refundable. The credit taken in a given tax year is limited to no more than 50% of the taxpayer's tax liability as calculated before considering the credit. Credits not used may be carried forward up to fourteen years from the year of qualifying property purchase. The definition of qualified investment is tied to the old federal ITC (repealed in the Tax Reform Act of 1986), with the exceptions that: a) the equipment must have Idaho situs; and b) motor vehicles under 8,000 pounds do not qualify. Mobile property that is only partially used in Idaho is allowed ITC in proportion to its use in Idaho.

History: Idaho's ITC was enacted in 1982. It was amended in 1987 to prevent its automatic repeal by the federal repeal of ITC in 1986. It was amended in 1992 in response to an Idaho Supreme Court case that changed the interpretation of how the credit is applied to equipment that is used both inside and outside Idaho. It was amended in 1994 to make technical changes relating to unitary corporations. It was amended in 1995 to

extend the carryover period from five to seven years, reduce the portion of tax liability that could be offset from 50% to 45%, and eliminated a restriction on replacement property. It was amended in 2000 to increase the portion of tax liability that could be offset from 45% to 50%, and to extend the carryover period from seven to fourteen years. It was amended in 2003 to provide an option to take a property tax exemption instead of the ITC.

1.02 Other States Tax Credit *Idaho Code 63-3029*

Description: The credit for taxes paid to other states is available to Idaho resident and part-year resident taxpayers who must pay income tax to another state or territory (or political subdivision thereof) on income that is also taxed by Idaho. The amount of credit is the lesser of the actual tax paid to the other state or territory, or the portion of Idaho tax attributed to the double-taxed income. The Idaho credit is not allowed if the other state or territory provides a credit for taxes paid to Idaho.

History: Initially enacted in 1939 along with the Idaho Income Tax Act. Amended in 1996 to add corporate income, franchise, or excise taxes paid by a subchapter S corporation.

1.03 Elderly Dependent Credit *Idaho Code 63-3025D*

Description: This is a refundable credit provided to a resident taxpayer who maintains a household for a family member(s), where that family member is over 65 years of age or developmentally disabled and the taxpayer provides over one-half of the family member's support. The amount of credit is \$100 for each such family member, with no more than \$300 available to the taxpayer in any single year. This credit is allowed in lieu of the elderly and development disability deduction allowed under *Idaho Code*, Section 63-3022E (see item 1.16).

History: Enacted in 1981. Amended in 1994 to add developmentally disabled persons to the credit.

1.04 Youth and Rehabilitation Credit *Idaho Code 63-3029C*

Description: This is a credit provided to taxpayers who make charitable contributions to the Anchor House, the North Idaho Children's Home, the Idaho Youth Ranch, the Children's Home Society of Idaho, Inc., Kinderhaven, Women's and Children's Alliance, Children's Village, Gem Youth Services, Hope House, non-profit centers for independent living located within Idaho, or to non-profit rehabilitation facilities located in Idaho and accredited by the Commission on Accreditation of Rehabilitation Facilities or their foundations. The credit is calculated as 50% of the contribution. For individual taxpayers the credit is limited to the lesser of \$100 or 20% of the taxpayer's income tax liability. For corporations the credit is limited to the lesser of \$500 or 10% of the taxpayer's income tax liability. There is no carry over provision.

History: The credit was enacted in 1982.

1.05 Schools, Libraries, and Museums Credit *Idaho Code 63-3029A*

Description: A credit is allowed for charitable contributions to Idaho public and private nonprofit schools (elementary, secondary, and higher education), their foundations, trusts, or associations; to Idaho Public Libraries and Library Districts, or their foundations; to Idaho Education Public Broadcast foundations; to the Idaho State Historical Society or its foundation; to the Idaho State Library; or to non-profit public or private museums located within Idaho. The credit is 50% of the contribution. In the case of individuals, it is limited to 20% of the taxpayer's income tax liability or \$100 whichever is less. In the case of corporations, the credit is limited to 10% of the tax liability or \$1,000 whichever is less.

History: Originally enacted in 1976, the school credit applied only to private nonprofit secondary or higher education institutions. Elementary schools were added in 1977. Public institutions of higher education were added in 1978. All public schools and public libraries were added in 1984. The Idaho Public Broadcast System was added in 1986. Foundations of the qualifying institutions were added in 1987. The Idaho Historical Society was added in 1992. Non-profit museums were added in 1994. The Idaho State Library was added in 1998. University-related research parks were added in 1999.

1.06 Grocery Credit *Idaho Code 63-3024A*

Description: This credit is available to every Idaho resident (or part-year resident) who appears as a personal exemption on an Idaho income tax return. It is not available to Idaho residents who do not have sufficient income to meet Idaho's income tax filing requirement unless they are over 62 years of age, are blind, or are a disabled American veteran. The credit amount is \$20 for individuals under 65 years of age, \$35 for individuals 65 years of age or older. Part-year residents are entitled to a proportionate credit reflecting the portion of the year they were domiciled in Idaho. There are no carry-over provisions associated with the grocery credit.

History: The grocery credit was originally enacted in 1965. It was amended in 1972 to make the credit refundable for residents over 65 years of age. It was amended in 1975 to make it refundable for resident taxpayers of all ages who meet the filing requirements. It is not refundable to non-residents. The grocery credit was amended in 1978 to raise the credit for individuals 65 years of age and older from \$20 to \$30. It was amended in 1983 to add statute of limitation to the credit. It was amended in 1996 to restrict the credit to residents. The grocery credit was amended in 2001 to raise the credit from \$15 to \$20 for individuals under 65 years of age and from \$30 to \$35 for individuals 65 years of age and older.

1.07 Recycling Equipment Credit *Idaho Code 63-3029D*

Description: This credit is for 20% of the cost of equipment used in manufacturing products that consist of at least 90% post-consumer waste. The credit is limited to no more than \$30,000 in a single tax year, and unused portions may be carried forward up to seven years. It is non-refundable.

History: This credit was enacted in 1994.

1.08 Technological Equipment Deduction *Idaho Code 63-3022J*

Description: A deduction from taxable income is allowed to individuals and corporations for the fair-market value of computers and scientific equipment (and computer software) that are donated to Idaho public schools, public libraries, or public and private colleges and universities. The equipment may not be over five years old at the time of donation, and the recipient must issue a written statement accepting the donation. The deduction cannot reduce taxable income to less than zero.

History: This deduction was enacted for schools in 1984 as 63-3025B. Libraries were added in 1985. Colleges and universities were added in 1995. The section was moved to 63-3022J in 1995.

1.09 Long-Term Care Insurance Deduction *Idaho Code 63-3022Q*

Description: This deduction from Idaho taxable income is for 100% of premiums for long-term care insurance.

History: Enacted in 2001. Amended in 2004 to cover 100% of long-term care insurance premiums. Original deduction applied to 50% premiums.

1.10 Alternative Energy Devices Deduction *Idaho Code 63-3022C*

Description: The Alternative Energy Device Deduction allows a deduction for the cost of acquiring, constructing, and/or installing wood, pellet, solar, wind, geothermal energy, or natural gas/propane devices in the taxpayer's residence. The deduction is limited to 40% of the cost in the first year and 20% of the cost in the next three years. No single year's deduction may exceed \$5,000. A taxpayer who buys a residence may claim any unused deduction associated with that residence subject to the restrictions noted above.

History: Enacted in 1976. Amended in 1994 to add natural gas and propane heating units, and to require that replaced wood burning stoves be surrendered to the Idaho Division of Environmental Quality.

1.11 Insulation Deduction *Idaho Code 63-3022B*

Description: This deduction is for the cost of insulation installed in buildings that "existed" as of January 1, 1976 and served as a residence of the taxpayer. A building "existed" if it was already built, under construction, or subject to an outstanding building permit. The insulation cannot be replacement for existing insulation.

History: Enacted in 1976.

1.12 Workers' Compensation Premium Deduction *Idaho Code 63-3022(p)*

Description: This deduction is allowed to self-employed individuals for the cost of workers' compensation insurance that has not already been deducted in arriving at taxable income.

History: Enacted in 1990.

1.13 Child Care Deduction *Idaho Code 63-3022D*

Description: The Child Care Deduction allows individual taxpayers to deduct childcare expenses which qualify for purposes of computing the federal child care credit. The maximum deduction allowed is \$2,400 for one qualifying child and \$4,800 for two or more qualifying children.

History: This deduction was enacted in 1977 in response to the federal switch from a deduction to a credit.

1.14 College Savings Deduction *Idaho Code 63-3022(o)*

Description: A deduction is allowed for amounts contributed to a college savings program (as defined in Chapter 54, Title 33, *Idaho Code*). The deduction is limited to a maximum of \$4,000 per tax year.

History: Enacted in 2000.

1.15 Health Insurance Deduction *Idaho Code 63-3022P*

Description: A deduction is allowed for payments for health insurance so long as those payments were not otherwise deductible from taxable income.

History: Enacted in 2000 for self-employed persons; added all persons in 2001.

1.16 Elderly and Development Disability Deduction *Idaho Code 63-3022E*

Description: This is a deduction from taxable income of \$1,000 for each eligible member of a household that is maintained by the taxpayer. The eligible members must be either 65 years of age or older, or developmentally disabled. The maximum amount of the deduction that the taxpayer can claim in any one tax year is \$3,000.

History: This deduction was enacted in 1981. Amended in 1984 to add developmentally disabled persons to the qualifying dependents. Amended in 1994 to allow the deduction on the developmentally disabled person's own return.

1.17 Adoption Expense Deduction *Idaho Code 63-3022I*

Description: This deduction is for up to \$3,000 of actual legal fees and medical costs incurred in an adoption.

History: This deduction was enacted in 1994.

1.18 Medical Savings Account Deduction *Idaho Code 63-3022K*

Description: This is a deduction for contributions to medical savings accounts. It is limited to a maximum of \$2,000 per taxpayer (per spouse on joint returns). Other restrictions apply.

History: This deduction was originally enacted in 1994 as Title 41, Chapter 53. Amended in 1995 to eliminate a restriction to high-deductible insurance policies, eliminated administrative responsibilities from the depository institution, and allowed taxpayer funded accounts to qualify. Also, it was moved to 63-3022K in 1995.

1.19 New Employees Credit *Idaho Code 63-3029F*

Description: A \$1,000 credit is granted for each new employee who was paid an average of \$15.50 per hour during the calendar year and was eligible to receive employer-provided accident or health insurance. A \$500 credit is available for each new employee in a business involved in manufacturing or processing any natural resource product. Businesses must choose between credits, since only one type of credit per new job can be used. The amount of credit that can be claimed in any one tax year is limited (along with most other credits) to 50% of the tax otherwise imposed, and may not exceed 3.25% of the taxpayer's net income. Unused credits may be carried forward up to 3 years.

History: Enacted in 2000. Amended in 2001 to cover all new employees, but only for tax year 2001. In 2003, the credit limit raised from 45% to 50% of tax otherwise imposed. Expanded in 2004 to include jobs that meet the hourly pay threshold and offer insurance coverage.

1.20 Riparian Land Improvements *Idaho Code 63-3024B*

Description: This is a 50% credit for expenditures related to improving the habitat for threatened/endangered species or riparian habitat. The credit is limited to no more than \$2,000 per person per year, and no more than \$250,000 for all such credits allowed in a single tax year.

History: Enacted in 1997, effective January 1, 1998, sunsets December 31, 2002.

1.20a Broadband Investment Credit *Idaho Code 63-3029I*

Description: This is a 3% credit for expenditures in qualified broadband equipment in Idaho. The credit is limited to no more than \$750,000 per taxpayer per year, and no more than the taxpayer's liability after all other credits in a single tax year. It can be carried forward for up to 14 years. This credit is transferable (sellable) to other taxpayers.

History: Enacted in 2001, effective January 1, 2001.

1.20b County Incentive Investment Tax Credit *Idaho Code 63-3029J*

Description: This is a variable rate credit for expenditures that qualify for Idaho's Investment Tax Credit (see 1.01). Its rate is the greater of one-half of the amount by which the average three-year unemployment rate in the county in which the property is located exceeds 6%, or one-tenth of one percentage point for each full percentage point the three-year average per-capita income level in the county in which the property is located is below 90% of the statewide average per-capita income level. The credit is limited to no more than \$500,000 per taxpayer, and no more than the taxpayer's liability after all other credits in a single tax year. It can be carried forward for up to 14 years. This credit is transferable (sellable) to other taxpayers.

History: Enacted in 2001, effective January 1, 2001, sunsets December 31, 2001.

1.20c Research Activity Credit *Idaho Code 63-3029G*

Description: This is a 5% credit for expenditures related to qualified research as defined in section 41 of the Internal Revenue Code. The research must be conducted in Idaho. The credit is limited to no more than the taxpayer's liability after all other credits in a single tax year.

History: Enacted in 2001, effective January 1, 2001.

1.21 Capital Gains Exclusion *Idaho Code 63-3022H*

Description: This exclusion is allowed for 60% of the gain from the sale of certain property. To qualify for this exclusion the property must have had an Idaho situs at the time of sale, and is limited to real property held for at least eighteen months; tangible personal property that was used in manufacturing, mining, agriculture, wholesaling, or research and development and held for twelve months or longer; cattle or horses held for twenty-four months or longer; other breeding livestock held twelve months or longer; or timber held for over twenty-four months or longer.

History: Enacted in 1987. Amended in 1995 to add various restrictions, including a requirement that qualifying timber must be grown in Idaho, and livestock gain claimants must derive at least half of their gross income from farming or ranching operations in Idaho. Amended in 1998 to reduce the holding period for real estate from five years to eighteen months.

1.22 Government Interest Exclusion *Idaho Code 63-3022(a)*;

Description: This exclusion is for the amount of interest earned on securities issued by the State of Idaho and/or local governments, and interest earned on securities issued by the federal government. The interest exclusion must be reduced by an amount that is calculated by multiplying the taxpayer's total deductible interest expense, times the ratio of the value of assets subject to the government interest exclusion, to the value of the taxpayer's assets in total.

History: This exclusion has been in effect since enactment of the income tax.

1.23 Social Security Exclusion *Idaho Code 63-3022(o)*

Description: This exclusion is for the amount of social security income that is included in arriving at federal adjusted gross income. No social security income is subject to Idaho's income tax.

History: This exclusion was enacted in 1984 in response to federal taxation of a portion of social security income.

1.24 Railroad Retirement Exclusion *Idaho Code 63-3022(o)*

Description: This exclusion is for the amount of railroad retirement benefits paid by the Railroad Retirement Board that are included in federal adjusted gross income. Railroad retirement is the equivalent of social security for railroad employees.

History: Enacted in 1984.

1.25 Retirement Benefit Exclusion *Idaho Code 63-3022A*

Description: This exclusion is for retirement benefits paid by any of the following: a) U.S. civil service; b) fireman's retirement fund of Idaho; c) policeman's retirement fund of a city within Idaho; and d) U.S. Military. The exclusion is available to either retirees or un-remarried widows of retirees who are 65 years of age or older, or are disabled and 62 years of age or older. The exclusion is limited to the actual retirement payment or the maximum amount of social security benefits available, whichever is less.

History: This exclusion was enacted in 1973. It is revised annually by the Tax Commission to adjust the maximum exclusion amount.

1.26 Idaho Lottery Winnings Exclusion *Idaho Code 67-7439*

Description: Excludes Idaho Lottery prizes of less than \$600 from taxable income.

History: Originally enacted in 1988 as a 100% exclusion. Amended in 1997 to limit the income exclusion to prizes of less than \$600 (effective 1/1/98). Amended in 1998 to restrict the exclusion to Idaho State Lottery winnings.

1.27 Indian Earnings on Reservation Exclusion *Idaho Income Tax Regulation 30*

Description: Income earned on an Indian reservation by an Indian who lives on the reservation is not taxable by the state. To qualify for the exclusion, the Indian must be an enrolled member of a federally recognized Indian tribe.

History: This exclusion is the result of various treaties and case law.

1.28 World War II Reparations Exclusion *Idaho Code 63-3022G*

Description: Amounts paid to individuals from the United States Civil Liberties Public Education fund.

History: Enacted in 1989.

1.29 Marriage Penalty Deduction *Idaho Code 63-3022N*

Description: Idaho joint income tax returns are given an additional standard deduction amount equal to double the single standard deduction less the joint deduction. This deduction is not available to returns that claim itemized deductions. Beginning in 2003 the federal standard deduction for joint filers will be twice the standard deduction for single filers, which will eliminate the Idaho Marriage Penalty deduction.

History: Enacted in 1999 at a level of \$150. Amended in 2000 to make it the difference between the joint standard deduction and two times the single standard deduction. Eliminated in 2003 by federal tax policy.

SALES AND USE TAX DETAIL

The following sales tax expenditures can be divided into four broad categories: 2.01 through 2.21a cover sales tax expenditures that are related to the specific uses of goods and services; 2.22 through 2.34 cover sales tax expenditures that are related to specific goods; 2.35 through 2.48 cover sales tax expenditures that are related to specific services; and 2.49 through 2.71 cover sales tax expenditures that are related to specific entities that receive exemptions on either all or part of the purchases or sales they make.

The listing for exempt services requires a special note. While a variety of classification systems are possible, the classification used here follows the structure of the North American Industry Classification System (NAICS) Manual, Executive Office of the President, Office of Management and Budget. This classification system was chosen because it is the basis for reporting a considerable variety of economic data, including that used for estimating the revenue impact associated with the various services delineated.

The NAICS coding system is based on the primary activity of the establishment being coded. For example, one of the activities included under the major group heading Personal Care Services is Barber Shops and Beauty Salons. The primary function of these establishments is the performance of haircuts and hair styling, both personal services that are presently exempt from sales tax. However, such establishments will also typically engage in retailing hair care products, transactions that are taxable. Thus, the receipts of a service establishment (such as a barbershop) can contain both exempt and taxable components. This is taken into consideration in the estimates of fiscal impact contained herein.

Another feature of the services classification used in this document relates to the classification of types of services vs. classification of industrial categories. NAICS categories include major groupings for Repair and Maintenance. This category includes repairs to televisions, stereos, appliances, tools, watches, jewelry, furniture, and most other tangible property. This group covers the bulk of all "repair services."

For these reasons, care must be taken in moving from this classification of services (based on NAICS definitions) and any other classification of services (based on broader conceptual notions, such as repairs to tangible personal property).

2.01 Production Exemption - Equipment *Idaho Code 63-3622D; 63-3622JJ*

Description: This feature of the production exemption exempts equipment used to produce a taxable product. Production activities covered by this exemption are limited to manufacturing, processing, fabricating, logging, farming, and mining. The equipment must be primarily and directly used in the production activity to qualify. Also, the claiming entity must be primarily engaged in a qualifying activity for its equipment to qualify. The only exception to this is logging, where any logging equipment qualifies.

Certain specific exclusions from the production exemption exist. They include: hand tools with a unit purchase price of \$100 or less; equipment that is used in activities other than the actual production activity; equipment used in research and development; equipment used in transportation, including motor vehicles and aircraft that are required to be licensed by any state; equipment used to make repairs; any

tangible personal property that is or is intended to become a component of real property; recreational vehicles; equipment used to produce exempted gas, electricity, water, heating materials, literature, or liquor.

History: This exemption was originally enacted in 1965 as 63-3622D. In 1987, custom farmers were added to the exemption by amending 63-3603, definition of farming. In 1989, 63-3605A was added to include contract loggers in the production exemption. In 1990, logging was moved to a separate section and expanded to include persons who are not primarily engaged in logging. It was amended in 1991 in response to the Haener decision (Idaho Supreme Court) by adopting the integrated plant doctrine, exempting equipment used to fabricate or install production equipment, and adding safety equipment.

2.02 Production Exemption - Supplies *Idaho Code 63-3622D, 63-3622JJ*

Description: This feature of the production exemption exempts supplies used in the process of producing a product for resale. Production activities covered by this exemption are limited to manufacturing, processing, fabricating, farming, logging, and mining. The supplies must be primarily and directly used in the production activity to qualify. Also, the claiming entity must be primarily engaged in a qualifying activity for its production supplies to qualify. The only exception to this is logging, where any logging supplies qualify.

Certain specific inclusions to the production exemption for supplies exist. They include: repair parts, lubricants, hydraulic oil, coolants, chemicals, catalysts, safety supplies (except for logging), and, in the dairy industry, disinfectants used to clean cow udders or to clean pipes, vats, or other milking equipment. Fuel used in logging trucks is also exempt.

Certain specific exclusions from the production exemption for supplies exist. They include: supplies that are used in activities other than the actual manufacturing, mining, farming, or logging process; supplies used in research or development; supplies used in transportation activities; repair supplies, other than parts for production equipment; any tangible personal property that is or is intended to become a component of real property; supplies used to produce exempted gas, electricity, water, heating materials, literature, or liquor.

History: This exemption was originally enacted in 1965 as 63-3622(d); custom farmers were added to the production exemption in 1987 by amending 63-3603, definition of farming; contract loggers were added in 1989 by adding 63-3605A. In 1990, logging was moved to a separate section and expanded to allow the exemption to apply to persons who are not primarily engaged in logging. Amended in 1991 in response to the Haener decision (Idaho Supreme Court) by adopting the integrated plant doctrine, exempting supplies used to fabricate or install production equipment, and adding safety supplies (except for logging). Amended in 1996 to add all fuel used in logging trucks.

2.03 Irrigation Equipment and Supplies *Idaho Code 63-3622W*

Description: Exempts agricultural irrigation equipment and supplies, even if attached to real property, and even if purchased by a contractor for an agricultural irrigation project.

History: Originally enacted in 1975 as 63-3622(f).

2.04 Pollution Control Equipment *Idaho Code 63-3622X*

Description: Exempts equipment required by regulatory agencies for air or water pollution control.

History: Originally enacted in 1977 as 63-3622(e). Amended in 1997 to add certain dry-cleaning equipment.

2.05 Broadcast Equipment and Supplies *Idaho Code 63-3622S*

Description: Provides an exemption for equipment and supplies used to produce and broadcast radio and television programs.

History: It was originally enacted in 1975 as 63-3622(w) and was amended in 1987 to add aircraft to the exclusions from the exemption.

2.06 Publishing Equipment and Supplies *Idaho Code 63-3622T*

Description: Provides an exemption for equipment and supplies used to publish advertising type newspapers that are sold or given away to the public, as long as the paper contains at least 10% editorial comment and advertising revenue is the publisher's primary source of income.

History: This exemption was originally enacted in 1979 as 63-3622(x). The only amendment in 1987 to this exemption was to add aircraft to exclusions from the exemption.

2.07 Commercial Aircraft *Idaho Code 63-3622GG*

Description: Exempts aircraft purchased for commercial transport of passengers or freight.

History: Enacted in 1988. Amended in 1994 to add any aircraft that are for use outside Idaho.

2.08 Railroad Rolling Stock and Remanufacturing *Idaho Code 63-3622CC; 63-3622DD*

Description: Provides an exemption for railroad rolling stock and for parts, equipment, and supplies used in the process of remanufacturing railroad rolling stock, whether or not the rolling stock is for resale. Rolling stock must have been used in interstate commerce at least three months prior to rebuild to qualify.

History: Enacted in 1986.

2.09 Interstate Trucks *Idaho Code 63-3622R*

Description: Exempts trucks weighing over 26,000 pounds that are registered under the international registration plan (or similar prorata system) and trailers that are used in a fleet operating in interstate commerce. Provides a recapture of sales tax on vehicles that are part of a fleet that are not used at least 10% outside Idaho during the calendar year.

History: Enacted in 1989.

2.10 Out-of-State Contracts *Idaho Code 63-3622B*

Description: Exempts goods purchased by contractors to install into real property in nontaxing states.

History: Originally enacted in 1965 as 63-3622(b), it was amended in 1993 to extend to non-Idaho contractors.

2.11 Trade-in Value *Idaho Code 63-3613(b)2*

Description: Excludes from the taxable sales price any amounts allowed for merchandise traded in on other like goods.

History: Enacted in 1965. Amended in 1990 to include trade-downs and barter.

2.12 Sale or Lease of Businesses or Business Assets *Idaho Code 63-3622K(b)(2-5)*

Description: Exempts sales of otherwise taxable merchandise, equipment, and supplies in cases where the entire business operation is undergoing transfer of ownership and the business itself will continue its operations. It also exempts sales of businesses that amount to change in the form of business ownership. It also exempts sales and leases of capital assets between closely related businesses, but only if the sales tax has previously been paid on the capital asset.

History: Originally enacted as 63-3622(l), it was amended in 1967 to add bulk sales and change in form of doing business by adopting a new definition section 63-3612A in 1967. Section 63-3612A was repealed and moved to 63-3622K in 1988, then amended in 1990 to add related business transfers and sales. Amended in 1996 to add leases of assets among family-owned businesses.

2.13 Food Stamps/WIC *Idaho Code 63-3622EE; 63-3622FF*

Description: Exempts goods purchased with WIC checks and federal food stamps.

History: Mandated in 1987 by the federal government.

2.14 Motor Vehicles Used Outside of Idaho *Idaho Code 63-3622R*

Description: Exempts vehicles under 26,000 pounds bought in Idaho for use outside Idaho. It also applies to trailers. (See 2.09 Interstate Trucks for vehicles over 26,000 pounds and trailers used in interstate commerce.)

History: Originally enacted as 63-3622(q) in 1965, it exempted vehicles sold in Idaho for use out-of-state. It was amended in 1989 to add weight limit.

2.15 Common Carrier Purchases and Out-of-State Sales *Idaho Code 63-3622Q, 63-3622P*

Description: Exempts goods delivered to buyers outside Idaho (63-3622Q) and in-state purchases by common carriers for use outside Idaho if transported out of Idaho under a bill of lading (63-3622P).

History: Originally enacted as 63-3622(p) and 63-3622(o) in 1965.

2.16 Donations of Real Property to Idaho Government *Idaho Code 63-3621(l)*

Description: Allows an exemption from use tax for goods that are donated to either the State of Idaho or to a nonprofit listed in 63-3622O, where the goods are incorporated into real property.

History: Enacted in 1991.

2.17 Incidental Sales of Tangible Personal Property *Idaho Code 63-3609*

Description: Exempts goods sold incidentally when selling real property, such as a stove and refrigerator included with a home.

History: Enacted in 1985.

2.18 Lodging, Eating, and Drinking Places *Idaho Code 63-3612*

Description: Allows these industries an exemption for nondepreciable goods that are consumed by customers, such as guest hand soap provided in a motel room.

History: Enacted in 1988.

2.19 School Lunches and Senior Citizen Meals *Idaho Code 63-3622J*

Description: Exempts federal meals programs for youth and elderly.

History: School Lunch programs were exempted in 1965 as 63-3622(k). Amended in 1974 to add sale of meals to aging persons under the Older Americans Act Program.

2.20 Drivers Education Automobiles *Idaho Code 63-3622R(d)*

Description: Exempts the value of motor vehicles that are temporarily donated to drivers education programs.

History: Enacted in 1995.

2.21 Ski Lifts and Snowgrooming Equipment *Idaho Code 63-3622Y*

Description: Exempts the lifts, snowgroomers, and snowmaking equipment used by the owner of a ski area.

History: Enacted in 1995.

2.21a Clean Rooms *Idaho Code 63-3622NN*

Description: Exempts any tangible personal property that is used in or becomes a part of a “clean room” used to manufacture semiconductors. Also includes property that is used to maintain a clean room.

History: Enacted in 1999.

2.22 Motor Fuels *Idaho Code 63-3622C*

Description: Exempts motor fuels subject to motor fuels tax; exempts off-road fuels loaded in Idaho and used outside Idaho.

History: Originally enacted in 1965 as 63-3622(c). Exempted on road use of motor fuels; amended in 1986 to exempt locomotive fuels unless loaded and burned off in Idaho.

2.23 Heating Materials *Idaho Code 63-3622G*

Description: Exempts wood, coal, gas, and petroleum products used as a source of heat for either industrial or domestic purposes.

History: Originally enacted in 1965 as 63-3622(g).

2.24 Utility Sales *Idaho Code 63-3622F*

Description: Exempts sales of natural gas, electricity, and water delivered to consumers by means of wires, pipes, mains, or similar systems.

History: Originally enacted in 1965 as 63-3622(f).

2.25 Used Mobile Homes *Idaho Code 63-3622R*

Description: Exempts the sale of used manufactured homes from the sales tax.

History: Original 63-3622(q) amended in 1976 to exempt used manufactured homes.

2.26 Vending Machines and Amusement Devices *Idaho Code 63-3622II*

Description: Exempts coin-operated machines that vend a taxable product or service.

History: Enacted in 1990.

2.27 Prescriptions and Durable Medical Equipment *Idaho Code 63-3622N*

Description: Exempts most prescription medical items.

History: This exemption was originally enacted as 63-3622(q) in 1967 to exempt prescription drugs. It was amended in 1971 to add prescription oxygen and amended in 1976 to add prosthetics, limbs, wheelchairs, hearing aides, and crutches. It was amended in 1990 to add durable medical equipment, and numerous other prescription items. Amended in 1992 to clarify that dentures and other orthodontic appliances are taxable when purchased by the practitioner. Amended in 1998 to reverse the 1992 amendment, and provide that dental prostheses and other orthodontic appliances, except fillings, are exempt.

2.28 Funeral Caskets *Idaho Code 63-3622U*

Description: Exempts goods sold in conjunction with a funeral.

History: Originally enacted in 1977 as 63-3622(y).

2.29 Containers *Idaho Code 63-3622E*

Description: Exempts containers that are part of goods for sale, including returnable containers.

History: Originally enacted in 1965 as 63-3622(e).

2.30 Nonprofit Literature *Idaho Code 63-3622I*

Description: Exempts literature published and sold by 501(c)(3) nonprofit organizations.

History: Originally enacted in 1965 as 63-3622(j), exempting only religious literature. Amended in 1989 to include literature of all 501(c)(3) nonprofit organizations in response to the U.S. Supreme Court ruling in *Texas Monthly vs. Bullock*. Amended in 1999 to include alternative forms, including audio-visual, magnetic, optical, and other machine-readable media.

2.31 Official Documents *Idaho Code 63-3622AA*

Description: Exempts sales of documents when the fee for the document is set by *Idaho Code*.

History: Originally enacted in 1984.

2.32 Precious Metal Bullion *Idaho Code 63-3622V*

Description: Exempts sales of precious metal bullion and coins.

History: Originally enacted in 1982 as 63-3622(z).

2.32a Idaho Commemorative Silver Medallions

Description: Exempts sales of Idaho commemorative silver medallions.

History: Originally enacted in 2003.

2.33 New Manufactured Homes or Modular Buildings *Idaho Code 63-3613(c)*

Description: Excludes 45% of the sales price of new manufactured homes and modular buildings from the taxable sales price.

History: Originally exempted 60% of the sales price of mobile homes when enacted in 1965. It was amended in 1976 to exempt 45% and add modular buildings (which were previously treated as real property improvements and taxed on materials as built).

2.34 Telecommunications Equipment *Idaho Code 63-3613(b), 63-3621(a)*

Description: Exempts from taxation the amount of discount or price reduction that is offered as an inducement to commence or continue telecommunications service.

History: Enacted in 1996.

2.35 Construction *Idaho Code 63-3609*

Description: Sales tax is paid on the cost of materials that are used in construction projects, but the labor component is generally not taxed. Mobile and manufactured homes are taxed on 55% of the sales price [*Idaho Code 63-3613(c)*] in order to give them equivalent treatment. NAICS major groups 233, 234, and 235 are included in this category.

History: The original language of the sales tax defined a "sale" as any transaction involving the exchange of tangible personal property for a consideration (*Idaho Code 63-3612*). In the section of the Sales Tax Act defining a retail sale it is stated that "all persons engaged in constructing, altering, repairing or improving real estate are consumers of the material used by them; all sales to or use by such persons of tangible personal property are taxable whether or not such persons intend resale of the improved property (*Idaho Code 63-3609*)."

2.36 Agricultural and Industrial Services

Description: This category of services includes agricultural soil preparation, planting, cultivating, and harvesting; farm management; forestry service; and mining services. NAICS major groups 115 and 213 are included in this category.

History: Originally excluded from definition of sales tax base.

2.37 Transportation Services *Idaho Code 63-3613(b)7*

Description: Most charges for transportation of freight and passengers are exempt from the sales tax (*Idaho Code 63-3613(b)7*). Exceptions (i.e., taxable transportation charges) include transportation of manufactured homes by the dealer (*Idaho Code 63-3613(b)7*), the cost of transportation prior to the sale (*Idaho Code 63-3613(a)3*), and receipts from intrastate transportation of passengers or freight by air charter [*Idaho Code 63-3612(j)*]. NAICS major groups 481 through 492 are included in this category.

History: Transportation services have generally been exempt since the enactment of sales tax in 1965. The exclusion for transportation of manufactured homes was added in 1986. Air charter transportation of freight and passengers was made taxable in 1988.

2.38 Information Services

Description: Subscriptions or charges for one-way and two-way transmissions of signals containing information (sound, images, data, etc.) and information services (internet providers, etc.) are not taxed. This exemption consists mostly of local and long-distance telephone service and cable television. NAICS major group 513 and 514 are included in this category.

History: Communications have been exempt since the enactment of the sales tax in 1965.

2.39 Repairs *Idaho Code 63-3613(b)4*

Description: The labor charges associated with repairing or installing tangible personal property are generally not taxable as long as they are separately stated on the bill. NAICS major group 811 is included in this category.

History: Exempt since enactment of the sales tax in 1965.

2.40 Professional Services

Description: Legal, accounting, engineering, architectural, consulting, scientific research, and advertising services fall within this category. NAICS major group 541 is included in this category.

History: Exempt since enactment of the sales tax in 1965.

2.41 Business Services

Description: Office services, employment services, building services, employment agencies, facility services, and security agencies are some of the major elements of this category. NAICS major groups 561 and 562 are in this category.

History: Exempt since enactment of the sales tax in 1965.

2.42 Personal Services

Description: Laundry and dry cleaning, barbers and beauticians, shoe repair, funeral services, massage parlors, and escort services are among the elements of the personal services major group. NAICS major group 812 is this category.

History: Exempt since enactment of the sales tax in 1965.

2.43 Health and Medical Services

Description: Doctors, dentists, hospitals, and nursing home services are the principal elements of this category. NAICS major groups 621 through 623 are in this category.

History: Exempt since enactment of the sales tax in 1965.

2.44 Social Services

Description: Adult and child day care, residential care, and adoption services are some of the principal elements of this category. NAICS major group 624 is this category.

History: Exempt since enactment of the sales tax in 1965.

2.45 Educational Services

Description: Elementary and secondary schools, colleges and universities, libraries, vocational schools, driving instruction, flight schools, and modeling schools are among the establishments covered by this category. NAICS major group 611 is this category.

History: Exempt since enactment of the sales tax in 1965.

2.46 Lottery Tickets and Pari-Mutuel Betting *Idaho Code 67-7439*

Description: Exempts the sale and purchase of lottery tickets and pari-mutuel betting from the sales tax. Also exempts from sales tax any equipment used in lottery operations.

History: Enacted in 1988.

2.47 Media Measurement Services *Idaho Code 63-3622LL*

Description: Exempts the sale and purchase of any television, radio, newspaper, or other media measurement service.

History: Enacted in 1997.

2.48 Miscellaneous Services

Description: This includes all personal service industries not classified elsewhere. Includes pet care, photo finishing, and parking lots and garages. NAICS major group 8129 is in this category.

History: Exempt since enactment of the sales tax in 1965.

2.49 Educational Institution Purchases *Idaho Code 63-3622O(1)(a) and 33-5204*

Description: Exempts all purchases by nonprofit colleges, universities, primary and secondary schools. Excludes from exemption schools that primarily teach business, dancing, gymnastics, dramatics, music, cosmetology, writing, exercise, and "other special accomplishments."

History: This was originally enacted as 63-3622(s) in 1967 and amended in 1990 to add non-resident schools with Idaho facilities. It was amended in 1993 to add all non-resident schools not otherwise excluded. 33-5204 was added in 1999 to explicitly add charter schools to this exemption.

2.50 Hospital Purchases *Idaho Code 63-3622O(1)(a)*

Description: Exempts all purchases by nonprofit hospitals that are licensed by the state for the care of ill persons. Excludes from exemption nursing homes or "similar institutions."

History: Originally enacted as 63-3622(s) in 1967.

2.51 Health Entity Purchases *Idaho Code 63-3622O(1)(a)*

Description: Exempts all purchases by certain specified "health related entities." The list consists of: the Idaho Cystic Fibrosis Foundation, Idaho Epilepsy League, Idaho Lung Association, March of Dimes, American Cancer Society, Mental Health Association, The ARC, The Children's Home Society of Idaho, American Heart Association, Idaho Ronald McDonald House, United Cerebral Palsy, Arthritis Foundation, Muscular Dystrophy Foundation, National Multiple Sclerosis Society, Rocky Mountain Kidney Association, American Diabetes Association, Easter Seals, Idaho Community Action Agencies, Idaho Primary Care Association and its community health care centers, the Idaho Diabetes Youth Program, the Idaho Women's and

Children's Alliance, and Special Olympics Idaho. It also includes the local or regional chapters or divisions of these entities.

History: Amended in 1980 to add first list of health related entities. Amended in 1986, 1990, 1999 and 2000 to expand the list.

2.52 Canal Company Purchases *Idaho Code 63-3622O(1)(a)*

Description: Exempts all purchases by canal companies. Canal companies are defined as nonprofit corporations whose sole purpose is operating and maintaining dams, reservoirs, canals, lateral and drainage ditches, pumps, and pumping plants.

History: Originally enacted in 1967 as 63-3622(s).

2.53 Forest Protective Association Purchases *Idaho Code 63-3622O(1)(a)*

Description: Exempts all purchases by forest protective associations. Forest protective associations are associations that detect, prevent, and suppress forest or range fires. They include only those associations that contract with the State of Idaho pursuant to Chapter 1, Title 38, *Idaho Code*.

History: Enacted in 1979.

2.54 Food Bank Purchases *Idaho Code 63-3622O(1)(b, c)*

Description: Exempts all purchases by food banks or soup kitchens. Includes the Idaho Food Bank Warehouse, Inc. by specific reference, and also includes any other nonprofit corporation or association "one of whose" primary purposes is the furnishing of food or food products to others without charge.

History: Enacted in 1991. Amended in 1998 to add "growing" to the list of activities that qualify for this exemption.

2.55 Nonsale Clothier Purchases *Idaho Code 63-3622O(1)(d)*

Description: Exempts donations or sales of clothes to nonsale clothiers. Nonsale clothiers are defined as any nonprofit corporation or association "one of whose" primary purposes is the furnishing of clothes to others without charge.

History: Enacted in 1992.

2.56 Centers for Independent Living *Idaho Code 63-3622O(1)(e)*

Description: Exempts sales to or purchases by centers for independent living. Centers for independent living are defined as private, non-profit, non-residential organizations where at least 51% of the governing board are individuals with disabilities.

History: Enacted in 1997.

2.57 State of Idaho and Local Government Purchases *Idaho Code 63-3622O(1)(f)*

Description: Exempts Idaho governmental agencies from paying sales tax on purchases.

History: Enacted in 1997; exemption was done by Tax Commission regulation from enactment of the sales tax to 1997.

2.58 Ronald McDonald House Rooms *Idaho Code 63-3622O(5)*

Description: This exempts the renting of a place to sleep by the Ronald McDonald House.

History: Enacted in 1997.

2.59 INEEL R&D Purchases *Idaho Code 63-3622BB*

Description: Exempts goods used for research and development at the Idaho National Engineering and Environmental Laboratory (INEEL).

History: It was originally enacted in 1967 and exempted all federal research and development and nuclear fuel reprocessing under 63-3615. It was amended in 1969 to limit to INEEL only. It was recodified in 1985 as 63-3622BB and removed nuclear fuel reprocessing from the exemption.

2.60 Motor Vehicle Purchases by Family Members *Idaho Code 63-3622K(c)*

Description: Exempts sales of motor vehicles between family members related within the second degree of consanguinity.

History: Section 63-3612A was amended in 1980 to add the sale of motor vehicles to family members. It was repealed and moved to 63-3622K in 1988.

2.61 Sales by 4-H and FFA Clubs at Fairs *Idaho Code 63-3622K(b)7*

Description: Exempts sales of animals by any 4-H club or FFA club held in conjunction with a fair or the Western Idaho Spring Lamb Sale.

History: Enacted in 1979 by amending 63-3612A. Moved to 63-3622K in 1988.

2.62 Sales by Non-Retailers (Yard and Occasional Sales) *Idaho Code 63-3622K(b)(1,6); 63-3622H*

Description: Exempts sales of items by individuals who are not retailers and who are not behaving as a retailer. Covers transactions such as occasional yard sales, occasional classified ad sales, etc. Motor vehicle sales are specifically excluded from this exemption.

History: Originally enacted as 63-3622(j, l) in 1965.

2.63 Sales by Indian Tribes on Reservations *Idaho Code 63-3622Z*

Description: Exempts sales by Indian Tribal Enterprises from sales and use tax. This exemption allows a tribal enterprise to make sales to both Indians and non-Indians without collecting sales tax. Further, it provides that no use tax applies to the purchase even if the non-Indian removes the goods from the reservation.

History: Originally enacted as 63-3622(aa) in 1984; exempted sales of tangible personal property by tribes within reservation boundaries; amended in 1987 to include sales of services and to define reservation.

2.64 Sales of Meals by Churches to Members *Idaho Code 63-3622J*

Description: Exempts meals sold at church functions to members of the congregation.

History: Originally enacted as 63-3622(k) in 1965.

2.65 Sales by Outfitters and Guides *Idaho Code 63-3613(b)9*

Description: Allows outfitters to exclude from the taxable amount charged to their customers the federal fees imposed on outfitters for the right to use recreational sites.

History: Enacted in 1990. Amended in 1994 to eliminate the provision that the federal fees must be for the purpose of managing the land or water upon which the outfitting occurs.

2.66 Sales Through Vending Machines *Idaho Code 63-3613(e)*

Description: Allows retailers selling products through vending machines for \$1.00 or less to pay tax on 117% of their acquisition cost of the products rather than on the retail sales price.

History: Enacted in 1977.

2.67 Auto Manufacturer Rebates *Idaho Code 63-3613(b)8*

Description: Allows dealers to deduct the amount of a rebate given to the buyer, by the motor vehicle manufacturer, from the taxable sales price of the vehicle.

History: Enacted in 1990.

2.68 Incidental Sales of Churches *Idaho Code 63-3622KK*

Description: Exempts sales by churches that do not regularly compete with private enterprise.

History: Enacted in 1990.

2.69 Federal Excise Tax Imposed at Retail Level *Idaho Code 63-3613(b)5*

Description: Excludes retail level federal excise taxes from the taxable sales price.

History: Originally enacted in 1965.

2.70 Federal Constitutional Prohibitions *Idaho Code 63-3622A*

Description: State cannot tax goods when prohibited by the U.S. Constitution.

History: Originally enacted in 1965 as 63-3622(a).

2.71 Other Federal and State Statutory Prohibitions

Description: Exemptions granted from state sales tax by other state statutes and by federal statutes, such as the American Red Cross, Amtrak, Credit Unions, Emergency 911, Federal Intermediate Credit Banks, Federal Land Banks, Foreign Diplomats, Idaho Health Facility Authority, Idaho Housing Authority, Idaho Life and Health Insurance Guaranty Association, Idaho Onion Commission, Idaho Potato Commission, Idaho Turnpike Authority, Idaho Wheat Commission, Jr. College Dormitory Housing Authority, Production Credit Association, and Regional Airport Authority.

History: Varies by statute.

CROSS REFERENCE TABLE

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	Title	Idaho Code
1.01	Investment Tax Credit	63-3029B
1.02	Other States Tax Credit	63-3029
1.03	Elderly Dependent Credit	63-3025D
1.04	Youth & Rehabilitation Credit	63-3029C
1.05	Schools, Libraries, and Museums Credit	63-3029A
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1.08	Technological Equipment Deduction	63-3022J
1.09	Long-Term Care Insurance Deduction	63-3022Q
1.10	Alternative Energy Devices Deduction	63-3022C
1.11	Insulation Deduction	63-3022B
1.12	Workers' Comp. Premium Deduction	63-3022(p)
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1.14	College Savings Deduction	63-3022(o)
1.15	Health Insurance Deduction	63-3022P
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1.17	Adoption Expense Deduction	63-3022I
1.18	Medical Savings Account Deduction	63-3022K
1.19	New Employees Credit	63-3029F
1.20	Riparian Land Improvements	63-3024B
1.20a	Broadband Investment Credit	63-3029I
1.20b	County Incentive Investment Tax Credit	63-3029J
1.20c	Research Activity Credit	63-3029G
1.21	Capital Gains Exclusion	63-3022H
1.22	Government Interest Exclusion	63-3022(a)
1.23	Social Security Exclusion	63-3022(o)
1.24	Railroad Retirement Exclusion	63-3022(o)
1.25	Retirement Benefit Exclusion	63-3022A
1.26	Idaho Lottery Winnings Exclusion	67-7439
1.27	Indian Earnings on Reservation Exclusion	Idaho Income Tax Regulation 30
1.28	World War II Reparations Exclusion	63-3022G
1.29	Marriage Penalty Deduction	63-3022N
2.01	Production Exemption - Equipment	63-3622D 63-3622JJ
2.02	Production Exemption - Supplies	63-3622D 63-3622JJ
2.03	Irrigation Equipment & Supplies	63-3622W
2.04	Pollution Control Equipment	63-3622X
2.05	Broadcast Equipment & Supplies	63-3622S
2.06	Publishing Equipment & Supplies	63-3622T
2.07	Commercial Aircraft	63-3622GG
2.08	Railroad Rolling Stock & Remanufacturing	63-3622CC 63-3622DD
2.09	Interstate Trucks	63-3622R

	Title	Idaho Code
2.10	Out-of-State Contracts	63-3622B
2.11	Trade-in Value	63-3613(b)2
2.12	Sales or Lease of Businesses or Business Assets	63-3622K(b)(2-5)
2.13	Food Stamps/WIC	63-3622EE 63-3622FF
2.14	Motor Vehicles Used Outside of Idaho	63-3622R
2.15	Common Carrier Purchases & Out-of-State Sales	63-3622Q 63-3622P
2.16	Donations of Real Property to Idaho Government	63-3621(l)
2.17	Incidental Sales of Tangible Personal Property	63-3609
2.18	Lodging, Eating, & Drinking Places	63-3612
2.19	School Lunches & Senior Citizens Meals	63-3622J
2.20	Drivers Education Automobiles	63-3622R(d)
2.21	Ski Lifts and Snowgrooming Equipment	63-3622Y
2.21a	Clean Rooms	63-3622NN
2.22	Motor Fuels	63-3622C
2.23	Heating Materials	63-3622G
2.24	Utility Sales	63-3622F
2.25	Used Mobile Homes	63-3622R
2.26	Vending Machines & Amusement Devices	63-3622II
2.27	Prescriptions and Durable Medical Equipment	63-3622N
2.28	Funeral Caskets	63-3622U
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2.47	Media Measurement Services	63-3622LL
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2.50	Hospital Purchases	63-3622O(1)(a)
2.51	Health Entity Purchases	63-3622O(1)(a)
2.52	Canal Company Purchases	63-3622O(1)(a)

	Title	Idaho Code
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2.54	Food Bank Purchases	63-3622O(1)(b,c)
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2.56	Centers for Independent Living	63-3622O(1)(e)
2.57	State of Idaho and Local Government Purchases	63-3622O(1)(f)
2.58	Ronald McDonald House Rooms	63-3622O(5)
2.59	INEEL R&D Purchases	63-3622BB
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2.63	Sales by Indian Tribes on Reservations	63-3622Z
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2.66	Sales Through Vending Machines	63-3613(e)
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33-5204	2.49	Educational Institution Purchases
63-3022(l)	1.23	Social Security Exclusion
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63-3022(m)	1.12	Workers' Comp. Premium Deduction
63-3022(o)	1.14	College Savings Deduction
63-3022A	1.25	Retirement Benefit Exclusion
63-3022B	1.11	Insulation Deduction
63-3022C	1.10	Alternative Energy Device Deduction
63-3022D	1.13	Child Care Deduction
63-3022E	1.16	Elderly & Developmentally Disabled Deduction
63-3022G	1.28	World War II Reparations Exclusion
63-3022H	1.21	Capital Gains Exclusion
63-3022I	1.17	Adoption Expense Deduction
63-3022J	1.08	Technological Equipment Deduction
63-3022K	1.18	Medical Savings Account
63-3022M	1.22	Government Interest Exclusion
63-3022N	1.29	Marriage Penalty Deduction
63-3022P	1.15	Health Insurance Deduction
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63-3024A	1.06	Grocery Credit
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63-3622C	2.22	Motor Fuels
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63-3622D	2.01	Production Exemption - Equipment
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63-3622E	2.29	Containers
63-3622EE	2.13	Food Stamps/WIC
63-3622F	2.24	Utility Sales
63-3622FF	2.13	Food Stamps/WIC
63-3622G	2.23	Heating Materials
63-3622GG	2.07	Commercial Aircraft
63-3622H	2.62	Sales by Non-Retailers (Yard & Occasional Sales)
63-3622I	2.30	Nonprofit Literature
63-3622II	2.26	Vending Machines & Amusement Devices
63-3622J	2.19	School Lunches & Senior Citizens Meals
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63-3622JJ	2.01	Production Exemption - Equipment
63-3622K(b)(1,6)	2.62	Sales by Non-Retailers (Yard & Occasional Sales)
63-3622K(b)(2-5)	2.12	Sale or Lease of Businesses or Business Assets
63-3622K(b)7	2.61	Sales by 4-H & FFA Clubs at Fairs
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63-3622W	2.03	Irrigation Equipment & Supplies
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63-3622Y	2.21	Ski Lifts & Snowgrooming Equipmnet
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67-7439	1.26	Idaho Lottery Winnings Exclusion

Idaho Code		Title
	2.46	Lottery Tickets and Pari-Mutuel Betting

